

**GOVERNANCE AND AUDIT COMMITTEE**

**Wednesday, 19th December, 2012**

**10.00 am**

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





## AGENDA

### GOVERNANCE AND AUDIT COMMITTEE

**Wednesday, 19th December, 2012, at**                      Ask for:                      **Andrew Tait**  
**10.00 am**  
**Darent Room, Sessions House, County**                      Telephone:                      **01622 694342**  
**Hall, Maidstone**

*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 A R Chell,                      Mr B R Cope,  
Mr K A Ferrin, MBE,                      Mr C Hibberd,                      Mr D A Hirst,                      Mr R A Marsh,  
Mr R J Parry, Mr J Tansley, Mr R Tolputt and Mr C T Wells

Liberal Democrat (1):                      Mr T Prater

#### **Webcasting Notice**

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

By entering the meeting room you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes. If you do not wish to have your image captured then you should make the Clerk of the meeting aware.

#### **UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting
2. Substitutes
3. Election of Vice Chairman
4. Declarations of Interest in items on the agenda for this meeting
5. Minutes (Pages 1 - 12)  
Committee – 25 September 2012  
Trading Activities Sub-Group – 28 September 2012
6. Committee Work and Member Development Programme (Pages 13 - 16)
7. Corporate Risk Register (Pages 17 - 42)
8. Treasury Management 6 Month Review 2012/13 (Pages 43 - 52)

9. Debt Management (Pages 53 - 62)
10. RIPA report on surveillance , covert human intelligence source and telephone data requests carried out by KCC between 1 April 2012 and 30 September 2012 (Pages 63 - 66)
11. Audit Commission Annual Letter (Pages 67 - 72)
12. External Audit progress report December 2102 (Pages 73 - 76)
13. External Audit Fee Letter 2012/13 (Pages 77 - 82)
14. Internal Audit Progress Report (Pages 83 - 104)
15. Kent Commercial Services Internal Audit work programme (June 2012 - March 2013) (Pages 105 - 116)
16. Effectiveness of Internal and External Audit Liaison (Pages 117 - 118)
17. Anti-Fraud and Corruption Progress Report (Pages 119 - 120)
18. 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

**Tuesday, 11 December 2012**

*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.

## GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Tuesday, 25 September 2012.

PRESENT: Mr R L H Long, TD (Chairman), Mr A R Chell, Mr B R Cope, Mr K A Ferrin, MBE, Mr C Hibberd, Mr D A Hirst, Mr S J G Koowaree (Substitute for Mr T Prater), Mr R A Marsh and Mr R Tolputt

ALSO PRESENT: Mr A H T Bowles, Ms S J Carey, Mr R W Gough, Mr J D Simmonds and Ms E Olive

OFFICERS: Mr A Wood (Corporate Director of Finance and Procurement), Ms A Mings (Treasury & Investments Manager), Mr G Wild (Director of Governance and Law), Ms N Major (Interim Head of Internal Audit), Mr R Hallett (Head of Finance and Resources - EHW), Mr M Scrivener (Corporate Risk Manager), Ms P Blackburn-Clarke (Quality Assurance Manager), Mrs C Dodge (Team Leader Information, Resilience and Transparency Team) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Ms E Olive from the Audit Commission.

### UNRESTRICTED ITEMS

#### **34. Minutes - 26 July 2012** (Item 4)

RESOLVED that the Minutes of the meeting held on 26 July 2012 are correctly recorded and that they be signed by the Chairman.

#### **35. Committee Work and Member Development Programme** (Item 5)

(1) The Interim Head of Internal Audit proposed an updated forward committee work and Member development programme.

(2) RESOLVED that approval be given to the forward work programme to September 2013 to meet the Committee's Terms of Reference.

#### **36. Presentation on Risk Management** (Item 6)

(1) The Head of Business Intelligence, Performance and Risk and the Corporate Risk Manager gave a presentation on Risk Management. The slides of this presentation can be found on [Link to Presentation Slides](#)

(2) RESOLVED that the report be noted and the Officers thanked for their presentation.

### **37. Update on Savings Programme**

*(Item 7)*

(1) The Cabinet Member for Finance and Business Support and the Corporate Director of Finance and Procurement reported on the delivery of savings in 2012/13 including a forecast underspend of £4m.

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

### **38. Review of KCC's Risk Management Policy and Programme**

*(Item 8)*

(1) The Cabinet Member for Business Strategy and the Head of Business Intelligence, Performance and Risk reported on the annual review of the County Council's Risk Management Policy and programme of work. As the Policy did not apply to Schools, the Committee asked for information on the risk management arrangements that applied to them.

(2) RESOLVED that:

(a) approval be given to the Risk Management Policy for 2012/13; and

(b) the progress of the Risk Management programme presented in the report be noted for assurance.

### **39. Treasury Management Update**

*(Item 9)*

(1) The Cabinet Member for Finance and the Corporate Director of Finance and Procurement gave a summary of Treasury Management activities for the period from April to August 2012.

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

### **40. KCC Annual Complaints, Comments and Compliments Report**

*(Item 10)*

(1) The Quality Assurance Manager and the Team Leader of the Information Resilience & Transparency Team reported on the Local Government Ombudsman letter and Annual Review 2011/12 and summarised the complaints, comments and compliments received by the County Council. They also set out improvements for 2012/13 in the form of changes to procedures or processes as well as improvements in communications and to the quality of service.

(2) The Committee noted that the percentage figure for acknowledged complaints for Education in 2011/12 should read 63% rather than 55%.

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

### **41. Internal Audit Progress Report**

*(Item 11)*

(1) The Interim Head of Internal Audit summarised the outcomes of Internal Audit activity since the July 2012 meeting of the Committee.

(2) RESOLVED to note:

- (a) progress against the 2012/13 Audit Plan, together with the proposed additions; and
- (b) the assurance provided in relation to the County Council's control environment as a result of the outcome of Internal Audit work completed to date.

#### **42. Internal Audit Benchmarking Results**

*(Item 12)*

(1) The Interim Head of Internal Audit summarised the 2011/12 Internal Audit Benchmarking results.

(2) The Committee agreed that CIPFA should be asked to re-examine the rules in respect of identifying the Comparator Councils in each of the graphs set out in the report. It was considered that this would make the benchmarking exercise more transparent and useful.

(3) RESOLVED that:-

- (a) the content of the report be noted;
- (b) approval be given to participation in the CIPFA/IPF Audit Benchmarking Club in 2012/13, and that the results be presented to the Committee in September 2013;
- (c) the County Council's ongoing participation in the benchmarking club be reviewed in September 2012; and
- (d) CIPFA be asked to re-examine the rules in respect of identifying the Comparator Councils in each of the graphs set out in the report, as the Committee considers that this would make the benchmarking exercise more transparent and useful.

#### **43. Anti Fraud and Corruption Progress Report**

*(Item 13)*

(1) The Interim Head of Internal Audit provided a summary of progress of anti-fraud and corruption activity since the previous meeting of the Committee in July 2012.

(2) RESOLVED that the progress of anti-fraud and corruption activity be noted together with the assurance provided in relation to anti-fraud culture and fraud prevention/investigation activity.

#### **44. Review of the Committee Terms of Reference**

*(Item 14)*

- (1) The Interim Head of Internal Audit reported her review of the Committee's Terms of Reference (description of methodology) and recommended minor amendments to them. As there were no amendments to the Terms of Reference themselves, there was no need for submission to the County Council for approval.
- (2) RESOLVED that approval be given to the proposed amendments to the description of methodology for the Committee's Terms of Reference as set out in Annex 1 to the report, for review in September 2013.

#### **45. Local Audit Bill**

*(Item 15)*

- (1) The Interim Head of Internal Audit gave an update on the Local Audit Bill consultation. She agreed to inform the Committee Members at a later stage on the proposed arrangements for appointment of the Independent Audit Appointment Panel Members.
- (2) RESOLVED that the update provided in the report be noted.

## **EXEMPT ITEMS**

*(Open access to Minutes)*

The Committee resolved under Section 100A of the Local Government Act 1972 to exclude the public from the meeting for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraphs 1 and 2 of Part 1 of Schedule 12A of the Act.

### **46. Update on Kent Cultural Trading (oral report)**

*(Item 16)*

*Prior to declaring this item to be Exempt, the Chairman ruled that this item was Urgent as there had been a significant update in events at Kent Cultural Trading since the agenda papers had been published. He considered it essential that Members of the Committee were made aware of these events at the earliest opportunity.*

(1) The Interim Head of Internal Audit gave an update report on Kent Cultural Trading Ltd. She explained that the Investigation was now complete and the actions which had been identified as necessary were in the process of being put in place.

(2) The Committee agreed that a report on the safeguards to prevent a repetition of the events described would be presented to a future meeting of the Committee, once they had been installed.

(3) RESOLVED that;

(a) the report be noted; and

(b) a further report be presented to a future meeting of the Committee once the safeguards have been installed.

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## **GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB GROUP**

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub Group held in the Swale 3, Sessions House, County Hall, Maidstone on Friday, 28 September 2012.

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

ALSO PRESENT: Mr J D Simmonds and Mr B J Sweetland

IN ATTENDANCE: Mr A Wood (Corporate Director of Finance and Procurement), Mrs C Head (Chief Accountant), Mr G Record (Finance and Procurement Officer), Ms N Major (Interim Head of Internal Audit), Mr M Austerberry (Corporate Director, Environment and Enterprise), Mr I McPherson (Managing Director Commercial Services), Mr L Coulson (Head Of Strategic Finance), Mr D Jackson (Planning Director Commercial Services), Mr M Hyland (Executive Officer EKO LLP) and Mr A Tait (Democratic Services Officer)

### **UNRESTRICTED ITEMS**

#### **7. Minutes - 4 July 2012**

*(Item 3)*

RESOLVED that the Minutes of the meeting held on 4 July 2012 are correctly recorded and that they be signed by the Chairman.

#### **8. Protocol relating to companies in which KCC has an interest**

*(Item 4)*

(1) The Corporate Director of Finance and Procurement invited approval of two minor amendments to the Protocol. The first of these was the addition of a final sentence to paragraph 7 (d) to read: "Where a company adopts its own policies, assurance must be provided that adequate policies and procedures are in place, with particular reference to anti-fraud and corruption."

(2) The second change proposed by the Corporate Director of Finance was the insertion of a new paragraph 7 (e) to read: "that appropriate due diligence has been completed which must include an evaluation of the background, experience and reputation of the company and/or the proposed and existing directors."

(3) RESOLVED that the Governance and Audit Committee be recommended to approve the proposed amendments to the Protocol set out in paragraphs (1) and (2) above.

#### **9. East Kent Opportunities LLP**

*(Item 5)*

(1) The Executive Officer EKO LLP reported on East Kent Opportunities LLP which was founded in 2008 as a Joint Arrangement (JANE) with Thanet DC in order to bring forward the economic development and regeneration of the Sites known as Eurokent and Manston Business Park. The key aim over the next 12 months was to promote a major outline mixed-use planning application for commercial, community and retail development and up to 550 new homes on the Eurokent site.

(2) In response to a question from Mr Wells, the Executive Officer EKO LLP said that the figure of £183,895 for Legal and Professional Administration Expenses in 2012 consisted mainly of the pre-application costs, including the public consultation process. The Spine road costs of £163,323 for the same year represented interest on the construction costs (spread over two years). He agreed to provide further details to the Panel Members following the meeting. He also agreed to clarify the relationship between EKO LLP and Employ Thanet.

(3) RESOLVED that subject to (2) above, the contents of the report be noted for assurance together with the East Kent Opportunities LLP Annual Report and Financial Statements for 2011/12 appended to the report.

#### **10. KCC's dormant companies**

*(Item 6)*

(1) The Corporate Director of Finance and Procurement reported on the County Council's dormant companies. He explained that "Produced In Kent" was very likely to take the decision not to dissolve the domain name "kentishfare.co.uk" but to transfer ownership of that name to itself.

(2) RESOLVED that the report be noted for assurance, including the progress in dissolving the County Council's dormant companies.

#### **11. KCC's Limited Companies 2011/12 Statutory Accounts**

*(Item 7)*

(1) The Corporate Director of Finance and Procurement presented the latest available Statutory Accounts for those companies in which KCC had an interest.

(2) The Interim head of Internal Audit explained that an accountant had been employed to produce 2011/12 accounts for Kent Cultural Trading Ltd. She would ascertain whether accounts for this company had been produced for 2010/11 when it had been largely dormant.

(3) The Sub-Group agreed to meet again in February 2013 in order to review the 2011/12 accounts of all those companies where only the 2010/11 accounts were currently available and that it would thereafter meet in February each year in order to consider the final Statutory Accounts.

(4) RESOLVED that in respect of those companies in which the County Council has an interest:-

(a) the latest available Statutory Accounts be noted for assurance;

- (b) a further meeting of the Sub-Group be held in February 2013 to review the 2011/12 Statutory Accounts for those companies where only the 2010/11 accounts are currently available; and
- (c) the Sub-Group will consider the final Statutory Accounts for those companies in February each year.

## **12. Re-alignment of Commercial Services structure following external review of its activities.**

*(Item 8)*

(1) Mr B J Sweetland, Cabinet Member for Environment, Highways and Waste explained that Commercial Services was a non-budget funded division of the County Council which funded itself from income generated by its own activities. It had made a net return to the County Council of £7m for the year 2011/12.

(2) Mr Sweetland had taken over responsibility for Commercial Services in May 2011 and had asked the Corporate Director to commission a review. This review had been undertaken by BDO and Eversheds and had identified areas for improvement in terms of transparency, particularly in respect of its ability to demonstrate the arms-length nature of the business.

(3) The Corporate Director, Environment and Enterprise said that following an individual assessment of Commercial Services' 26 business units, it had been decided to reconfigure them into 5 client-facing divisions. A Board had been established by the County Council in December 2011, consisting of Cabinet Members (Mr Gough, Mr Simmonds and Mr Sweetland) and senior officers.

(4) The Managing Director, Commercial Services informed the Panel that each member of staff in Commercial Services contributed on average £8,000 and an overall reduction in Council Tax per household equating to @ £22 per person per year. 84% of its turnover was from clients outside County Council controlled budgets. It was now appropriate to develop a simpler and more effective structure away from KCC. The staff were fully engaged and supportive, and discussions with the Trade Unions had been constructive.

(5) The Managing Director, Commercial Services then explained that the proposal was to simplify the current operating model from managing under five limited companies to two specific company structures. One would be a "Teckal"-compliant company, trading exclusively with the County Council. The other would enable Commercial Services to trade with the wider public and private sector under the auspices of Section 95 of the Local Government Act 2003. The client-facing divisions would continue as before, covering the areas of Education, Energy, Care, Employment and Direct Services.

(6) The Managing Director, Commercial Services replied to Members' questions by saying that it would be inappropriate to bring EduKent under the Commercial Services umbrella as it was a customer-led company which did not operate in order to make money. Commercial Services, in contrast, was a customer-focussed operation. The only "Teckal" businesses operating would be those that could demonstrate value for money. In future, all monies would be accounted for in a

single set of figures. The two companies would therefore account for the entire Commercial Services turnover.

(7) Mr Sweetland said that the new structure would enable Commercial Services to demonstrate that it was not being cross-subsidised by the County Council. This question had previously been blurred in the public mind. He added that although there were two companies which had consistently raised doubts about Commercial Services' method of operation, there were more than 60 others which had been helped by its work. It was not only necessary to comply with all rules, laws and regulations, it was also essential to be able to clearly demonstrate this.

(8) RESOLVED to note the report on the re-alignment of the Commercial Services company structure following external review of its activities.

By: Richard Long, Chairman of Governance and Audit Committee  
Neeta Major, Interim Head of Internal Audit

To: Governance and Audit Committee – 19 December 2012

Subject: **COMMITTEE WORK & MEMBER DEVELOPMENT PROGRAMME**

Classification: Unrestricted

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**Summary:** This report provides an updated forward committee work and member development programme.

## **FOR DECISION**

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### **Introduction and background**

1. This is a standing item on each agenda to allow members to review the plan for the year ahead, and provide members with the opportunity to identify any additional items that they would wish to include.
2. In addition on 18 April 2012, the Committee agreed a training programme for 2012-13 and that a proposed 2013-2014 post election training programme would be presented to the April 2013 Committee for consideration.

### **Current work programme**

3. Annex 1 shows the latest programme of work for the Committee, up to December 2013. 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.
4. The programme details that in December 2012 there is a review of the Bribery Act policy and any related amendments to the Constitution. The Director of Governance and Law and the Counter Fraud Manager have reviewed the policy and concluded that no amendments are required. Hence a separate paper has not been prepared, but the item will remain on the programme to ensure annual review.
5. The programme reflects requests made from Committee members for additional reports on specific items of interest.

### **Member Development programme**

6. As agreed on 18 April 2012, for 2012-13 risk management training was provided at the September Committee meeting.
7. In addition the Governance & Audit Committee Trading Activities Sub Group was provided with training on the Local Government Act 2003 Trading Order (including best practice requirements for a robust business case and business plan) on 28 September 2012.

## **Recommendations**

8. It is recommended that Members:

- approve the forward work programme to December 2013 to meet the Committee's Terms of Reference;
- identify any additional items that members would wish to include.

## **Appendices**

**Annex 1**                      Committee work programme

**Neeta Major**  
**Interim Head of Internal Audit**  
**Ext: 4664**

Category / Item	Owner	Dec-12	Apr-13	Jul-13	Sep-13	Dec-13
<b>Secretariat</b>						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	NM	✓	✓	✓	✓	✓
Member Development Programme	NM	✓	✓	✓	✓	✓
<b>Risk Management and Internal Control</b>						
Corporate Risk Register	RH	✓		✓		✓
Review of the Risk Management Strategy, Policy and Programme	RH					✓
Report on Insurance and Risk Activity	NV		✓			
Treasury Management quarterly report/six monthly review	NV	✓	✓		✓	✓
Treasury Management Annual Report	NV			✓		
Ombudsman Complaints	GW				✓	
Annual Complaints Report	DC				✓	
Update on Savings programme	AW		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	MR			✓		
Adhoc report on RIPA	MR	✓				
<b>Corporate Governance</b>						
Progress update on Change to Keep Succeeding	AB	Adhoc as requested				
Update on development of Management Guides (previously Statements of Required Practice).	DW		✓			
Annual review of Terms of Reference	NM				✓	
Debt Recovery	NV	✓		✓		✓
Annual review of the Council's Code of Corporate Governance	GW		✓			
Review of Bribery Act Policy and any related amendments to Constitution ( <i>no changes in Dec 2012 hence no separate report</i> )	GW	✓				✓

Category / Item	Owner	Dec-12	Apr-13	Jul-13	Sep-13	Dec-13
<b>Internal Audit</b>						
Internal Audit Progress Report	NM	✓	✓		✓	✓
Internal Audit Annual Report	NM			✓		
Internal Audit Benchmarking Results	NM				✓	
Internal Audit Strategy and Annual Plan	NM		✓			
Review of Charter of Internal Audit	NM			✓		
<b>External Audit</b>						
External Audit Update	NM	✓	✓	✓	✓	✓
External Audit Governance Report	NM			✓		
External Audit Annual Audit Letter	NM	✓				✓
External Audit Certification of Claims and Returns Report	NM		✓			
Effectiveness of Internal and External Audit Liaison	NM	✓				✓
External Audit Annual Plan & Fee	NM		✓			
External Audit Pension Fund Plan & Fee	NM		✓			
<b>Financial Reporting</b>						
Statement of Accounts & Annual Governance Statement	AW			✓		
Revised Accounting Policies	CH		✓			
<b>Fraud</b>						
Anti-fraud and anti-corruption compliance with CiPFA Red Book	NM			✓		
Review of the Anti-fraud and anti-corruption Strategy	NM			✓		
Anti-Fraud and Corruption Progress Report	NM	✓	✓	✓	✓	✓

By: Roger Gough, Cabinet Member for Business Strategy,  
Performance and Health Reform  
David Cockburn, Corporate Director Business Strategy &  
Support

To: Governance and Audit Committee – 19<sup>th</sup> December 2012

Subject: **CORPORATE RISK REGISTER**

Classification: Unrestricted

**Summary:**

Governance & Audit Committee receives the Corporate Risk Register every six months for assurance purposes. The register has recently been refreshed and is presented to the Committee along with an overview of the key changes and an outline of the ongoing process of monitoring and review.

**FOR ASSURANCE**

**1. Introduction and background**

1.1 The Corporate Risk Register is maintained by the Corporate Risk Team on behalf of Cabinet and the Corporate Management Team. The register is formally reviewed annually, but is a ‘living document’ and is reviewed and updated in-year to reflect any significant new risks or changes in risk exposure that may arise due to internal or external events; and to track progress against mitigating actions.

**2. Corporate Risk Register Refresh**

2.1 The Corporate Risk Register has been refreshed to take into account comments from Cabinet Members and the Corporate Management Team and information gathered from Directorate Management Teams. It was presented to Cabinet on 3<sup>rd</sup> December 2012.

2.2 The Corporate Risk Register still contains eleven risks; although the composition of risks has changed since last reported to Governance & Audit Committee in April. A risk relating to Welfare Reform was added in the summer of 2012, and as part of the recent autumn refresh two further risks have been added to the Corporate Register, relating to delivery of savings and procurement.

2.3 Three risks have now been transferred from the Corporate Register to the relevant directorate registers. They are:

Risk Title	Reason(s) for Delegation
CRR 7 – Governance & Internal Control	Low-to-medium level of risk (score of 9) and actions relating to change in KCC governance arrangements now completed and classified as controls.

Risk Title	Reason(s) for Delegation
CRR 8 – Academies independence from KCC	Risk being managed at directorate level.
CRR 11 – Responsiveness to emerging Government Reforms and Directives	Low-to-medium level of risk (score of 9) and specific areas of reform requiring action are captured elsewhere on register (i.e. Health and Welfare reforms)

- 2.4 If the level of risk in these areas is judged to increase, they will be escalated back up to Corporate Management Team and Cabinet Members for review and potentially placed back onto the Corporate Register.
- 2.5 Of the eleven risks, there are three areas of risk currently rated as “High”. These relate to safeguarding; management of social care demand; and potential implications of the Welfare Reform Act. The other eight risks are currently rated as “Medium”.
- 2.6 The majority of current risk ratings have remained the same, with the exception of Organisational Transformation, which has been judged to have reduced overall from a score of 16 to 12 (although the risk is still deemed to be ‘Medium’); and Localism, which has been reassessed as ‘Medium’ rather than ‘High’.
- 2.7 Further details of these risks, including controls and mitigating actions, are contained in the register at appendix 1.
- 2.8 The Corporate Risk Team has been working with directorates to ensure that the Corporate Risk Register is underpinned by Divisional and Directorate Risk Registers, from which risks can be escalated in accordance with KCC’s Risk Management Policy. Directorate Risk Registers are to be reported to Cabinet Committees in January alongside draft 2013/14 business plans.

### **3. Monitoring & Review**

- 3.1 There is a particular focus on ensuring that key mitigating actions are identified and progress monitored. The risks within the Corporate Risk Register, their current risk level and progress against mitigating actions are reported quarterly to Cabinet via the Quarterly Performance Report. Insufficient progress against mitigating actions will be referred to the Performance & Evaluation Board.
- 3.2 Risks that may prevent Services from achieving the Authority’s business objectives should be highlighted in business plans and mitigating actions developed and reflected within those plans.

### **4. Risk Management Information System**

- 4.1 The contents of the Corporate Risk Register have been entered onto a risk management database, which is being developed as a central repository of

risk information, thus enabling risk and action owners to monitor and manage risks and actions and to make adjustments as they arise. Piloting of the database is being finalised, with risk registers from across the directorates being added, and key reports are being configured to facilitate analysis of interdependencies between risks and gain an improved picture of cumulative risk exposure.

## **5. Recommendations**

- 5.1 The Governance and Audit Committee is asked to NOTE the assurance provided in relation to the development and maintenance of the Corporate Risk Register.

**Richard Hallett**  
**Head of Business Intelligence**  
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**Tel: 01622 694134**

*Contact Officer*  
*Mark Scrivener*  
*Corporate Risk Manager*  
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*Tel: 01622 696055*

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# **KCC Corporate Risk Register**

**Presented to Governance & Audit Committee  
December 2012**



## Summary Risk Profile

Low = 1-6
Medium = 8-15
High = 16-25

Risk No.**	Risk Title	Current Risk Rating	Target Risk Rating
CRR 1	Data and Information Management	12	9
CRR 2	Safeguarding	16	12
CRR 3	Economic Growth	12	12
CRR 4	Civil Contingencies and Resilience	12	9
CRR 5	Organisational Transformation	12	8
CRR 6	Localism	9	9
CRR 9	Health Reform	12	6
CRR 10	Management of Social Care Demand	25	16*
CRR 12	Welfare Reform Act	16	9
CRR 13	Delivery of Medium Term Financial Plan savings	12	2
CRR 14	Procurement	9	6

\*Interim position, as we clearly would wish to reduce this risk further. Early intervention and transformational initiatives are being pursued and the impact of them will need to be evaluated before exploration of further mitigating actions.

\*\*Each risk is allocated a unique code, which is retained even if a risk is transferred off the Corporate Register. Therefore there will be some 'gaps' between risk IDs.

Likelihood & Impact Scales					
<b>Likelihood</b>	Very Unlikely (1)	Unlikely (2)	Possible (3)	Likely (4)	Very Likely (5)
<b>Impact</b>	Minor (1)	Moderate (2)	Significant (3)	Serious (4)	Major (5)

Risk ID	CRR1	Risk Title	Data and Information Management			
<b>Source / Cause of risk</b>		<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
The Council is reliant on vast amount of good quality data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act to maintain confidentiality, integrity and proper use of the data. With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information repositories, controls on data management and security have become complex and important.		Poor decision making due to ineffective use of or insufficient availability of data and information sharing.  Loss, misrepresentation or unauthorised disclosure of sensitive data.  Malicious attacks and sabotage	Under performance.  Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs.  Significant interruption of vital services leading to failure to meet duties and to protect people, finances and assets  Potential damage to KCC's reputation	On behalf of CMT:  Director Governance & Law  <b>Responsible Cabinet Member(s):</b>  Business Strategy, Performance & Health Reform	Likely (4)	Significant (3)
<b>Control Title</b>					<b>Control Owner</b>	
Senior Information Risk Officer in place					Corporate Director Business Strategy & Support	
Centralised resilience and transparency team in place.					Team Leader- Information Resilience & Transparency team	
Caldicott Guardians in place in FSC and C&C Directorates (FSC Guardian has lead role for KCC), protecting confidentiality of service user information and enabling appropriate information sharing.					Corporate Director Families & Social Care	
Coherent county wide strategy and protocols on sharing information between agencies. Kent & Medway Information Governance Programme Board's Information sharing agreement in place.					Integrated Youth Services Effective Practice & Performance Manager	
ICT Strategy in place.					Director of ICT	
Interim Information Governance e-Learning package available to Kent Managers and other staff on request					Corporate Director Human Resources	
<b>Action Title</b>		<b>Action Owner</b>			<b>Planned Completion Date</b>	
SIRO action plan including Information Governance management guidance (to include Freedom Of Information, Data Protection, Environmental Information Requests policies & protocols, good practice guidance on records management, data classification, information security, appropriate storage media, email and fax usage, privacy notices, use of databases)		Director Governance & Law			December 2012	
Instigation of information asset register and identification of information asset owners		Records Manager			March 2013	
Standard terms and conditions for orders/contracts <£50k value relating to information security		Head of Strategic Procurement			December 2012	
Implementation of recommendations from Data Quality Audits		Relevant Heads of Services			February 2013	
Introduction of Information Governance e-learning package for all staff		Corporate Director Human Resources			February 2013	

Improvement in Information Security & Information Risk Management arrangements as evidenced by a satisfactory NHS Information Governance Toolkit return

Corporate Director Families & Social Care / Director of Governance & Law / Director of ICT

February 2013

Risk ID	CRR2	Risk Title	Safeguarding			
		<b>Source / Cause of risk</b> The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults and children.	<b>Risk Event</b> Insufficiently robust management grip, performance management or quality assurance  Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability.  Insufficient rigor in maintaining threshold application/inconsistency  Increase in referrals and service demand resulting in unmanageable caseloads/ workloads for social workers  Decline in performance and effective service delivery leading to critical inspection findings and reputational damage	<b>Consequence</b> Serious impact on vulnerable people  Serious impact on ability to recruit the quality of staff critical to service delivery.  Serious operational and financial consequences  Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities  Incident of serious harm or death of a vulnerable adult or child	<b>Risk Owner</b> Corporate Director Families & Social Care  <b>Responsible Cabinet Member(s):</b>  Specialist Children's Services  Adult Social Care & Public Health	<b>Current Likelihood</b> Likely (4)  <b>Target Residual Likelihood</b> Possible (3)  <b>Current Impact</b> Serious (4)  <b>Target Residual Impact</b> Serious (4)
<b>Control Title</b>					<b>Control Owner</b>	
Consistent scrutiny and performance monitoring through Divisional Management Team, District 'Deep Dives' and audit activity					Corporate Director Families & Social Care	
Reduction in caseloads per social worker and robust caseload monitoring					Corporate Director Families & Social Care	
Significant work undertaken to increase rigour and managerial grip in Duty and Initial Assessment Teams					Corporate Director Families & Social Care	
Central Duty Service & Central Referral Unit now in place to ensure increase in consistency and threshold application					Corporate Director Families & Social Care	
FSC management team monitors social work vacancies and agrees strategies for urgent situations					Corporate Director Families & Social Care	
Active strategy in place to attract and recruit social workers through a variety of routes with particular emphasis on experienced social workers. Detailed programme of training					Corporate Director Families & Social Care	
CMT, FSC Directorate Management Team and the Cabinet Member for Adult Social Care & Public Health and Specialist Children's Services receive quarterly safeguarding performance reports.					Corporate Director Families & Social Care	
Programme of internal and external audits for adult safeguarding case files with regards to FSC and Kent & Medway Partnership Trust (KMPT) in place. Peer reviews of safeguarding arrangements conducted by Essex County Council.					Corporate Director Families & Social Care	
Performance management of safeguarding is part of the Improvement Plan in place between KCC (FSC directorate) and KMPT.					Director of Learning Disability & Mental Health	
FSC Strategic Adults Safeguarding Board provides a strategic countywide overview of adult safeguarding within FSC and monitors progress towards the FSC Strategic Adult Safeguarding action plan					Corporate Director Families & Social Care	
Safeguarding Vulnerable Adults (SGVA) coordinators work closely with Contracting colleagues where there are safeguarding concerns in the					Corporate Director Families & Social Care	

independent sector using 'Quality in care' framework		
Regular monitoring of FSC safeguarding action plan by the FSC Strategic Adults Safeguarding Board. Ongoing monitoring of KMPT safeguarding action plan	Director of Strategic Commissioning	
SGVA Co-ordinator meetings take place on a monthly basis. These meetings are an opportunity to share best practice and raise ongoing issues. The work plan for the group continues to be monitored	Director of Strategic Commissioning	
Exercise to map levels of safeguarding training completed by staff in the independent sector conducted. Providers signposted to where they can access information about safeguarding training	Director of Strategic Commissioning	
New, fit-for-purpose Specialist Children's Services structure introduced.	Director of Specialist Children's Services	
<b>Action Title</b>	<b>Action Owner</b>	<b>Planned Completion Date</b>
Continued work to strengthen delivery of early intervention/prevention services. Services being commissioned to phased timetable according to Commissioning and Procurement Plan Supplier Framework.	Director of Strategic Commissioning	March 2013
Practice improvement programme to strengthen practice across Children and Families Teams	Director of Specialist Children's Services	November 2012
Ongoing development of further strategies and campaigns to support recruitment so that we attract and retain high calibre social workers and managers. Use of competent agency social workers and managers on temporary basis to fill vacancies	Corporate Director of Families & Social Care / Corporate Director of Human Resources	January 2013 - regular reviews as part of Improvement Plan
A structured mechanism for feeding back lessons learnt from assessment, regulation and inspection needs to be implemented	Director of Strategic Commissioning / Director of Specialist Children's Services	March 2013
Review of Kent Safeguarding and Children in Care Improvement Plan in light of findings from recent peer review and establishment and implementation of key actions, including: <ul style="list-style-type: none"> <li>Production of long-term vision for Children's Services in KCC</li> <li>Strengthening of Kent Safeguarding Children Board Arrangements</li> <li>Continued embedding of improved quality of practice and application of thresholds.</li> </ul>	Director of Specialist Children's Services	November 2012 Ongoing (March 2013 review) Ongoing (Dec 12 review)

Risk ID	CRR3	Risk Title	Economic Growth					
<b>Source / Cause of Risk</b>		<b>Risk Event</b>		<b>Consequence</b>		<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
The Council carries significant responsibility for encouraging and enabling growth in the County's economy. Our aim to 'grow the economy' is becoming increasingly challenging in the current economic climate.		Prolonged adverse, uneven or worse than anticipated economic situation		Stalled/low economic and jobs growth		Corporate Director Business Strategy & Support and Head of Paid Service	Likely (4)	Significant (3)
		If the current economic climate continues or worsens or other regions re-stimulate their economies more quickly than Kent, then the Council's ability to deliver its plans for economic growth will be constrained.		The Council finds it increasingly difficult to fund KCC services across Kent and deal with the impact of growth on communities.		(Corporate Director Enterprise & Environment)	<b>Target Residual Likelihood</b>	<b>Target Residual Impact</b>
		Community Infrastructure Levy (CIL) payments, Section 106 contributions and other growth levers do not cover the cost of infrastructure		Kent becomes a less viable place for inward investment and business		<b>Responsible Cabinet Member(s):</b>	Likely (4)	Significant (3)
				Without growth the county residents will have less disposable income, face increased levels of unemployment and deprivation which could lead to heightened social and community tensions		Regeneration & Economic Development		
				Reduced income, business exodus, unplanned increase in costs, and demand for Council services beyond capacity to deliver				
				Our ability to deliver an enabling infrastructure becomes constrained				
<b>Control Title</b>						<b>Control Owner</b>		
KCC's 20 year transport delivery plan, <i>Growth without Gridlock</i> sets out the key transport drivers for change which will help to facilitate and stimulate economic growth in the County. Implementation plan in place and regularly monitored.						Director Planning & Environment		
Key infrastructure is identified and planned for as part of District Local Plans and Infrastructure Delivery Plans.						Director Planning & Environment		
Planning & Environment and Economic & Spatial Development teams working with each individual District on composition of infrastructure plans including priorities for the CIL and Section 106 contributions, from which gaps can be ascertained						Director Economic & Spatial Development / Director of Planning & Environment		
Dedicated Economic & Spatial Development (commissioning) team and Regeneration Projects delivery team in place to lead on this agenda.						Director of Economic & Spatial Development		
Delivery of £5m Regional Growth Fund to improve rail journey times to East Kent and boost job opportunities						Director of Planning & Environment		

Delivery of £35m Expansion East Kent loan scheme to growth businesses in East Kent, with the aim of creating 5,000 jobs and attracting £320m of private sector investment.	Director of Economic & Spatial Development	
£20m Regional Growth funding secured for Thames Gateway Innovation, Growth and Enterprise (TIGER) programme to provide direct financial support to businesses in North Kent and Thurrock with the potential for growth with the aim of creating 3,400 jobs (new and safeguarded) and attracting a further £400m in private sector investment (subject to Member approval)	Director of Economic & Spatial Development	
Kent Forum Housing Strategy refreshed	Strategic Housing Advisor	
"Grow For It" East Kent launched showcasing East Kent for inward investors.	Director of Economic & Spatial Development	
<b>Action Title</b>	<b>Action Owner</b>	<b>Planned Completion Date</b>
Use of capital and revenue allocations to develop and pump prime transport schemes in Growth without Gridlock	Director Planning & Environment	March 2013 (review)
Economic & Spatial Devt SMT review of "critical" programmes/projects at SMT meetings and review of KPIs to ensure continued appropriateness and relevance	Director Economic & Spatial Development	March 2013 (review)
Ensure future infrastructure is provided through financial arrangements such as Section 106 and Community Infrastructure Levy. Meetings being established with each District Council to understand priorities.	Director Economic & Spatial Development / Director of Planning & Environment	March 2013 (review)
'High Growth' Kent initiative supporting high growth business in Kent	Head of Business Engagement & Economic Devt.	December 2014
Decision on award for Kent & Medway Broadband Programme as part of Broadband Delivery UK (BDUK) initiative.	Economic Devt Manager	April 2013
Launch of "Incubator" Programme to support the provision of incubator and start-up workspace in key locations.	Director Economic & Spatial Devt	November 2012
Continued business engagement via Business Advisory Board (BAB) and sector conversations	Director Economic & Spatial Devt	March 2013 (review) BAB meetings are Bi-monthly.
Ensure effective governance arrangements in place for the South East Local Enterprise Partnership Local Transport Body, to enable prioritisation of transport infrastructure	Director of Planning & Environment	April 2013
Working with Network Rail, ensure delivery of phase 1 journey time improvement scheme to East Kent	Director of Planning & Environment	December 2013

Risk ID	CRR4	Risk Title	Civil Contingencies and Resilience			
<b>Source / Cause of Risk</b>		<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
The Council, along with other Category 1 Responders in the County have a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies and severe / extreme weather conditions.		Failure to deliver suitable planning measures, respond to and manage these events when they occur.  Their ability to effectively manage incidents and maintain critical services could be undermined if they are unprepared or have ineffective emergency and business continuity plans and associated activities.	Potential increased loss of life if response is not effective.  Serious threat to delivery of critical services.  Increased financial cost in terms of damage control and insurance costs.  Adverse effect on local businesses and the Kent economy.  Possible public unrest and significant reputational damage  Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	Corporate Director  Customer & Communities  <b>Responsible Cabinet Member(s):</b>  Customer & Communities	Possible (3)  <b>Target Residual Likelihood</b>  Possible (3)	Serious (4)  <b>Target Residual Impact</b>  Significant (3)
<b>Control Title</b>					<b>Control Owner</b>	
Legally required multi-agency Kent Resilience Forum in place, with work driven by risk and impact based on Kent's Community Risk Register. Key roles of group include: <ul style="list-style-type: none"> <li>• Intelligence gathering and forecasting;</li> <li>• Regular training exercises and tests;</li> <li>• Task &amp; Finish groups addressing key issues.</li> <li>• Plan writing</li> <li>• Capability building</li> </ul>					Head of Community Safety & Emergency Planning	
Critical functions identified across KCC as a basis for effective Business Continuity Management (BCM).					Head of Community Safety & Emergency Planning	
Management of financial impact to include Bellwin scheme					Finance Strategy Manager	
Maintenance & delivery of emergency procedures, plans and capabilities in place to respond to a broad range of challenges.					Head of Community Safety & Emergency Planning	
System in place for ongoing monitoring of severe weather events (SWIMS)					Programmes & Partnerships Manager, Sustainability & Climate Change	
Implementation of Kent's Adaptation Action Plan 2011-2013					Programmes & Partnerships Manager, Sustainability & Climate Change	
Local multi-agency flood response plans in place.					Head of Community Safety & Emergency	

		Planning
Winter Resilience Planning Group & action plan in place.		Head of Community Safety & Emergency Planning
ICT resilience improvements made to underlying data storage, data centre capability and network resilience. Funds approved for further work to improve services that utilise Microsoft SharePoint such as KNet and Kent.gov in line with Customer Services strategy.		Director of Information & Communication Technology
<b>Action Title</b>	<b>Action Owner</b>	<b>Planned Completion Date</b>
Other BCM planning and response measures being developed	Emergency Planning Manager	March 2013 (review)
Implementation of business continuity recommendations contained in Price Waterhouse Cooper (PWC) audit.	Emergency Planning Manager	January 2013
Continue to review Business Impact Analysis to reflect new structure and all inter-dependencies.	Emergency Planning Manager	March 2013
Continue to conduct regular exercises and rehearsals of plans Work to improve internal and external communications in the event of an incident (Communications Plan being developed)	Emergency Planning Manager	March 2013
Finalisation of Business Continuity Management Plan for the Contact Centre to improve overall resilience.	Emergency Planning Manager / Operations Manager Contact Point	March 2013
Further development of ICT Disaster Recovery & Business Continuity Plans	Director of Information & Communication Technology / Emergency Planning Manager	March 2013 (review)
Upgrading of corporate email service to increase level of resilience	Director of Information & Communication Technology	November 2012
New digital telephone service to be introduced with added resiliency	Director of Information & Communication Technology	December 2012
Upgrading / enhancement to Automated call distribution system, Customer Relationship Management System and services that utilise MS SharePoint (e.g. Kent.gov and KNet) and underlying software, including training provision to ensure KCC has a sustainable support capability for these services.	Director of Information & Communication Technology	March 2013

Risk ID	CRR5	Risk Title	Organisational Transformation				
		<b>Source / Cause of Risk</b> The Council is undergoing rapid change in order to deliver <i>Bold Steps for Kent</i> . A programme of major structural, operational and cultural transformation is underway. Staff reductions are being made because of budget pressures. The move towards more strategic commissioning and other changes to ways of working requires new skill sets and the changing environment for local government requires new behaviours from all staff. A "one council" approach to workforce planning is essential to ensure we have the right numbers of suitably skilled staff in the right places. The combination of losing experienced staff, recruiting new staff, and ensuring existing staff have the right skills and behaviours is a major challenge.	<b>Risk Event</b> Failure to manage the transformation process through adequate planning and resources Lack of appropriate skills and capacity to move to alternative delivery process Loss of excellent staff due to scale of changes Failure to deliver expected outcomes and benefits, and critical services may be impeded.	<b>Consequence</b> Failure to deliver key services, to maintain quality of services provided and to achieve financial savings required, leading to reputational damage and further pressure on services.	<b>Risk Owner</b> On behalf of CMT: Corporate Director Human Resources  <b>Responsible Cabinet Member(s):</b>  Business Strategy, Performance & Health Reform	<b>Current Likelihood</b> Possible (3)*  <b>Target Residual Likelihood</b> Unlikely (2)	<b>Current Impact</b> Serious (4)  <b>Target Residual Impact</b> Serious (4)
					*While the overall risk has diminished for the organisation over the last year because of controls put in place and that many significant restructures have been completed successfully, there is still risk relating to the adult transformation programme and change in ways of working. The score for this area in isolation would remain at 4.		
<b>Control Title</b>					<b>Control Owner</b>		
An Organisational Development Plan is in place, outlining KCC's key people activities from 2011-2015, including clear objectives and planned outcomes. Progress is monitored by HR divisional management team, Directorate Management Teams, Corporate Management Team and Corporate Board. Outcomes being monitored and challenged by Performance & Evaluation Board as appropriate.					Corporate Director (Human Resources)		
Delivery of <i>Change to keep Succeeding</i> restructuring programme. Timelines are published on KNet together with information on current and completed restructures.					Corporate Director (Human Resources)		
Directorate action plans in place and reviewed annually					Organisational Devt Group leads		
Staff care policy in place					Corporate Director (Human Resources)		
Centralised training budget and training plan in place delivered by Organisational Development Training Group, including leadership and Kent Manager programmes					Corporate Director (Human Resources)		
Professional staffing resources dedicated to more complex issues					Corporate Director (Human Resources)		
Governance & Internal Control mechanisms refreshed to align with new organisational arrangements (i.e. KCC constitution and Code of Corporate Governance.					Director (Governance & Law)		
Programme Office in place providing independent assurance of significant transformational programme and project management and their interdependencies across KCC to ensure appropriate benefits realisation. Reports to Corporate Board and Budget Programme Board as appropriate.					Head of Policy & Strategic Relationships		
<b>Action Title</b>				<b>Action Owner</b>		<b>Planned Completion Date</b>	
Delivery of the Organisational Development & People Plan through action plans for each of the five areas of people management activity:				Corporate Management Team		March 2013 (review)	

<ul style="list-style-type: none"> <li>• Resourcing;</li> <li>• Development;</li> <li>• Performance;</li> <li>• Transformation;</li> <li>• Retention</li> </ul> <p>Directorate action plans to be reviewed annually</p>		
Further work to develop Succession Planning across the organisation via Organisational Development Groups	Corporate Director (Human Resources)	March 2013 (review)
Implementation of Internal Communications Campaign	Director Communications & Engagement	February 2013 (launch)
Revision of KCC employee Terms & Conditions to reflect the changing shape of the workforce	Corporate Director (Human Resources)	April 13 (beginning of implementation)

Risk ID	CRR6	Risk Title	Localism			
<b>Source / Cause of Risk</b>	<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>	
Bold Steps for Kent envisages place-based commissioning for some KCC services, considerable opportunity for a more joined-up approach and greater efficiencies if there is a single district-based commissioning plan that is shared by KCC Members and District Councillors. In addition, the Localism Act paves the way for the Right to Buy public assets, the Right to Challenge the provision of public services and the Right to Bid to provide services, all of which potentially bring still greater complexity into the way in which services are commissioned and delivered.	<p>Right to Challenge may not be conducive to the overall aims of Localism or corporate priorities</p> <p>Locality Boards fail to deliver effective &amp; efficient place-based provision arrangements</p> <p>Delay in decision making due to complexity of this agenda</p> <p>Breakdown in critical relationships</p>	<p>Failure to deliver required transformation fast enough.</p> <p>Loss of economies of scale for service delivery and failure to deliver required budget savings.</p> <p>Procurement &amp; Commissioning process for locality arrangements becomes resource intensive / duplicates effort.</p> <p>Key Bold Steps for Kent objectives not achieved.</p>	<p>Corporate Director</p> <p>Customer &amp; Communities</p> <p><b>Responsible Cabinet Member(s):</b></p> <p>Customer &amp; Communities</p>	<p>Possible (3)</p> <p><b>Target Residual Likelihood</b></p> <p>Possible (3)</p>	<p>Significant (3)</p> <p><b>Target Residual Impact</b></p> <p>Significant (3)</p>	
<b>Control Title</b>				<b>Control Owner</b>		
Extensive preparatory work has taken place, including KCC Future Service Options Programme, preparing KCC for the implications of the "Right to Challenge" legislation, which was enacted on 27 <sup>th</sup> June 2012. Phase 1 of Make, Buy, Sell programme completed. First tranche of services included in first Expression of Interest (EOI) window agreed. Local Members to be involved in making recommendations for future service delivery.				Strategic Business Advisor, Business Strategy & Support		
<i>Vision for Kent</i> in place – the county's community strategy, developed with partners across the county.				Strategic Relationships Advisor		
Local Government partners are engaging through Kent Joint Chiefs and Locality Boards				Strategic Relationships Advisor		
Senior level engagement – KCC Directors are represented at each Locality Board				Corporate Management Team		
Thematic briefings held on KCC issues of importance to Locality Boards				Director of Service Improvement		
Locality Board Programme Plan in place and governance arrangements developed. A KCC steering group has been established. Roles & responsibilities have been developed and agreed for KCC staff who work with Locality Boards, along with a communications plan for stakeholders, including the public.				Head of Business Transformation , Service Improvement		
Management Information 'dashboards' developed across localities				Director of Service Improvement / Head of Business Intelligence / Strategic Relationships Advisor		
Support given to Locality Boards via Community Engagement Officers				Head of Consultation & Engagement		
<b>Action Title</b>		<b>Action Owner</b>	<b>Progress</b>	<b>Planned Completion Date</b>		
Phase 2 of 'Make Buy Sell' reviews to be agreed by Corporate Board in 2013/14.		Director of Service Improvement / Head of Policy & Strategic Relationships	N/A	July 2013		

Risk ID	CRR9	Risk Title	Health Reform				
<b>Source / Cause of Risk</b>		<b>Risk Event</b>		<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
<p>The enactment of the Health and Social Care Bill gives KCC, as an upper tier Authority, a new duty to take appropriate steps to improve the health of the people.</p> <p>As well as the Act introducing a generic duty, it also requires KCC to undertake a number of specific steps including establishing a Health and Wellbeing Board; development of an enhanced Joint Strategic Needs Assessment (JSNA) under the auspices of the Health and Wellbeing Board; Commissioning Kent Health Watch; assuming statutory responsibility for some of the key locality-led elements of the new national Public Health System; and appointing (by statute) a Director of Public Health.</p> <p>In effect, this means that KCC becomes an integral part of this new national system providing locality-led leadership and oversight of public health (PH) in the County together with responsibilities in delivering some key public health services from the 1 April 2013.</p> <p>To support these new responsibilities the Authority will receive a ring-fenced budget and the transfer of most of the existing NHS staff currently working in public health in Kent.</p>		<p>The changes outlined in the Act to the NHS, including the changes to the national Public Health system prove overly difficult to achieve in the timescales set</p> <p>Following successful delivery / implementation the predefined outcomes and benefits are unachievable.</p> <p>Not enough Public Health resource is transferred to cover the delivery of services.</p> <p>Insufficient resource to support Health and Well Being Board and related sub-architecture.</p>		<p>Existing arrangements would be undermined by changes to health structures during and after implementation leading to additional costs particularly in adult social services (cost shunting).</p> <p>Existing arrangements for health and social care may deteriorate whilst waiting for new arrangements to get underway leading to ineffective health and social care provision for citizens of Kent – potentially damaging lives and Council reputation.</p> <p>Inadequate budgets provided by Central Govt to sustain current levels of locality-led Public Health services.</p> <p>Business Continuity issues due to delay in the development and management of essential new complex partnerships between KCC and the NHS.</p> <p>Potential increase in debt owed to KCC by outgoing NHS organisations Ability and commitment of successor bodies to continue with Section 31, 75 and 256 agreements.</p> <p>The possibility of unsafe practices in health protection as a consequence of responsibilities for this domain of Public Health being split between Public Health England, the National Commissioning Board and the Local Authority.</p>	<p>Corporate Director Families &amp; Social Care (Director of Public Health)</p> <p><b>Responsible Cabinet Member(s):</b></p> <p>Business Strategy, Performance &amp; Health Reform</p> <p>Adult Social Care &amp; Public Health</p>	<p>Possible (3)</p> <p><b>Target Residual Likelihood</b> Unlikely (2)</p>	<p>Serious (4)</p> <p><b>Target Residual Impact</b> Significant (3)</p>
<b>Control Title</b>					<b>Control Owner</b>		
Local transition plan has been developed by KCC and Medway Directors of Public Health alongside that produced by the South East Coast region.					Director of Public Health		
KCC has a designated Cabinet Portfolio Holder for NHS reforms, who has assumed a central role at strategic level					Leader of the Council		
Virtual Health & Wellbeing Board Steering Group established					Director of Public Health		

Establishment of a shadow Health & Wellbeing Board chaired by Cabinet Member	Director of Governance & Law	
KCC Public Health Transition Project Team established, reporting to the Corporate Director of Families & Social Care	Corporate Director Families & Social Care	
Dedicated resource commissioned to ensure that any transfer of funding is fair and equitable and the interests of the Council are protected.	Director of Public Health	
KCC/NHS reform budget agreed by Cabinet Members	Director of Strategic Commissioning	
Secondment of a consultant from the Health Protection Agency to consider and to write the procedures underpinning the delivery of safe services	Director of Public Health	
PCT cluster working group established co-chaired by the two Directors of Public Health in Kent & Medway to oversee and mitigate the risk of unsafe public health service emerging	Director of Public Health	
Cabinet Member attends PCT Cluster Board	Cabinet Member for Business Strategy Performance & Health Reform	
KCC Public Health Transition project plans in place	Director of Public Health	
Joint Commissioning Board and sub groups for children's services established to identify joint priorities to improve outcomes	Director of Strategic Commissioning	
<b>Action Title</b>	<b>Action Owner</b>	<b>Planned Completion Date</b>
An HR framework is being developed as part of the work of the transition planning group	Director of Public Health	March 2013
Alignment of the Families & Social Care Transformation Programmes with Commissioning plans of Clinical Commissioning Groups (CCGs)	Director of Strategic Commissioning Director of Older People & Physical Disability	April 2013
Transition of shadow Health & Wellbeing Board into full status.	Head of Policy & Strategic Relationships	April 2013
Development of a strategic approach to commissioning Kent Health watch	Director of Public Health	April 2013
Engage and work with the emerging Kent CCGs on both adult and children's health services	Corporate Director Families & Social Care	April 2013
Continue work to integrate Health & Social Care services	Director of Older People & Physical Disability	April 2013
Influence central government bodies to remove barriers to integration and to promote partnership working.	Director of Public Health	April 2013
Complete NHS Information Governance Toolkit return (cross-reference to Data and Information Management risk – CRR1)	Director of Families & Social Care / Director of Governance & Law / Director of ICT	February 2013

Risk ID	CRR10	Risk Title	Management of Social Care Demand			
<b>Source / Cause of Risk</b>		<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
KCC recognises that to effectively operate its services within budget limitations and affect preventative early intervention it must examine its operations and services and how they match customer expectations and demand.		Council fails to determine, manage and resource to future demand and its services are then unable to meet future customer requirements.  Fulfilling statutory obligations and duties becomes increasingly difficult against rising expectations	Customer dissatisfaction with service provision. Increased and unplanned pressure on resources Decline in performance. Legal challenge resulting in adverse reputational damage to the Council.	Corporate Director Families & Social Care  <b>Responsible Cabinet Member(s):</b> Adult Social Care & Public Health  Specialist Children's Services	Very Likely (5)  <b>Target Residual Likelihood</b> Likely (4)	Major (5)  <b>Target Residual Impact</b> Serious (4)
<b>Control Title</b>					<b>Control Owner</b>	
Analysis and refreshing of forecasts to maintain the level of understanding which feeds into the relevant areas of the MTFP and the business planning process					Director of Strategic Commissioning	
Monitoring, vigilance and challenge regarding the placement of children and Adults in Kent.					Director of Strategic Commissioning	
Plans developed to manage the number of children in care and ongoing discussions with high placing LA's placing children in care in Kent.					Director of Specialist Children's Services	
Adult Social Care Transformation Programme Blueprint and Preparation Plan agreed by Cabinet, including six identified transformation themes.					Corporate Director Families & Social Care	
Benefits of enablement support to existing and potential service users, their families and key partners being marketed. Work is linked into the Adult Transformation Programme and ensure there is sufficient capacity in the market to provide Enablement Services					Director of Strategic Commissioning	
Continue to support early intervention and support services that make a difference in terms of delaying the need for more expensive social care support and helps improve quality of life					Director of Specialist Children's Services	
Joint commissioning of services with health, in particular for people with dementia, long term conditions and for carers.					Director of Strategic Commissioning Director of Older People & Physical Disability	
Utilise opportunities to make contracting and procurement controls drive value for money further					Director of Strategic Commissioning	
Develop better understanding of demand profile and respond as early as possible to have the greatest impact on demand management					Director of Strategic Commissioning	
Continued drive to maximise the use of Telecare as part of the mainstream community care services					Director of Older People & Physical Disability and Director of Learning Disability and Mental Health	
Maintain the use of appropriate tools to obtain value for money in relation to the commissioning of expensive specialist residential accommodation					Director of Strategic Commissioning	
<b>Action Title</b>			<b>Action Owner</b>		<b>Planned Completion Date</b>	
Ensure the appropriate number of children in care			Director of Specialist Children's Services		March 2013 (review)	

Ensure that children in care receive appropriate levels of support and services through effective multi-agency intervention that is responsive to their needs.	Director of Specialist Children's Services	March 2013
Re-focusing of early intervention and prevention services (both direct and commissioned)- is specifically designed to address this pressure and to ensure improved outcomes for children and young people	Director of Strategic Commissioning	March 2013
Evaluation of Central Referral Unit, which has been introduced to help with the effective management of safeguarding cases	Director of Specialist Children's Services	December 2012
Adult Social Care Transformation Programme - delivery of outputs from planning phase.	Director of Strategic Commissioning	December 2012
Continue to challenge other local authorities on ordinary residence matters	Director of Older People & Physical Disability and Learning Disability & Mental Health	March 2013 (review)
Jointly develop risk stratification tools with Health to better target interventions.	Director of Older People and Physical Disability Services	April 2013
Public Health & Social Care to ensure effective provision of information, advice and guidance and to promote self management to reduce dependency	Director of Public Health / Director of Older People and Physical Disability Services	April 2013
Continue to support investment in preventative services through voluntary sector partners	Director of Strategic Commissioning	March 2013
Implementation of Customer Service Strategy with emphasis on personalisation, incentivisation, demand management and localism	Director of Customer Services	March 2015

Risk ID	12	Risk Title	Welfare Reform Act			
<b>Source / Cause of Risk</b>		<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
The Welfare Reform Act 2012 puts into law many of the proposals set out in the 2010 white paper <i>Universal Credit: Welfare that Works</i> . It aims to bring about a major overhaul of the benefits system and the transference of significant centralised responsibilities to local authorities. The Act presents KCC with two major challenges; firstly to determine and implement the schemes and operations required to effectively comply with the Act on time and to specification and secondly to be prepared to manage the uncertain affects and outcomes that the changes may have on Kent and its people.		<p>Failure to develop and deliver effective schemes and operations within statutory deadlines, specification and budget.</p> <p>The financial models and budgets and funding sources underpinning the new schemes prove to be inadequate and allocation of payments and grants has to become prioritised against more challenging criteria.</p> <p>The impact of the reforms in regions outside of Kent could trigger the influx of significant numbers of 'Welfare' dependent peoples to Kent.</p> <p>Failure to plan appropriately to deal with potential consequences.</p>	<p>Failure to meet statutory obligations has major legal, financial and reputational repercussions for KCC.</p> <p>Ineffective delivery of schemes and operations to customers compounds demand on KCC and partner services.</p> <p>An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk.</p> <p>New schemes and operations are undermined by a negative impact on Kent's demographic profile.</p> <p>Insufficient employment to meet additional demand and to fill the publics' 'funding gap' places additional challenges for adult and child safeguarding and demand for social support.</p> <p>Increasing deprivation leads to increase in social unrest and criminal activity.</p>	<p>Corporate Director Customer &amp; Communities</p> <p>Corporate Director Families &amp; Social Care</p> <p>(Corporate Director of Finance &amp; Procurement)</p> <p><b>Responsible Cabinet Member(s):</b></p> <p>Finance &amp; Procurement</p> <p>Customer &amp; Communities</p> <p>Older People's Services</p>	<p>Likely (4)</p> <p><b>Target Residual Likelihood</b> Possible (3)</p>	<p>Serious (4)</p> <p><b>Target Residual Impact</b> Significant (3)</p>
<b>Control Title</b>					<b>Control Owner</b>	
Cross-party Informal Members Group established to consider developments					Cabinet Member for Older People's Services (including Public Health)	
Key work streams and outputs to prepare for changes identified and detailed in a Welfare Reform Implementation, Response and Monitoring Plan					Head of Policy & Strategic Relationships	
Initial analysis of impacts conducted by KCC Business Intelligence & external partners to give an indication of scale of implications					Research & Evaluation Manager, Business Intelligence	
Analysis and research into potential implications for service users, claimants and KCC of introduction of Personal independence Payment to replace Disability Living allowance for working age claimants from April 2013					Research & Evaluation Manager, Business Intelligence	
Housing Strategy team working with South East Housing associations to consider likely impact on sector					Strategic Housing Advisor	
KCC working with Billing authorities & other major preceptors to design scheme which offers support to the most vulnerable whilst managing reduction in funding					Finance Strategy Manager	
<b>Action Title</b>		<b>Action Owner</b>	<b>Complete)</b>	<b>Planned Completion Date</b>		
Localisation of Social Fund – firm proposals for local scheme to be produced for decision		Policy Manager, Business Strategy & Support		January 2013		

Universal Credit – Continue work with DWP to establish local delivery aspects in terms of face-to-face support	Head of Service – Customer Relationship Unit	April 2013
Total Benefit Cap – Update initial analysis to gain further insight into implications and produce a briefing on the impact on residents and services in Kent (best and worst case scenarios)	Research & Evaluation Manager, Business Intelligence	January 2013
Development of mechanism to track benefit cap migration into Kent and reach agreement on its use with District Councils.	Research & Evaluation Manager, Business Intelligence	November 2012 (mechanism developed) January 2013 (consensus with Districts)
Council Tax Benefit localisation - finalise details of scheme in conjunction with Districts and include necessary changes into 2013/14 budget and Medium Term Financial Plan	Finance Strategy Manager	January 2013

Risk ID	CRR13	Risk Title	Delivery of Savings			
<b>Source / Cause of Risk</b>		<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular. KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to "balance its books."		The required savings from key programmes or efficiency initiatives are not achieved.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent.  Reputational damage to the council.	On behalf of CMT: Corporate Director Finance & Procurement  <b>Responsible Cabinet Member(s):</b>  Finance & Business Support	Possible (3)  <b>Target Residual Likelihood</b> Very unlikely (1)	Serious (4)  <b>Target Residual Impact</b> Moderate (2)
<b>Control Title</b>					<b>Control Owner</b>	
Robust budgeting and financial planning in place via Medium Term Financial Planning (MTFP) process					Corporate Director (Finance & Procurement)	
Process for monitoring delivery of savings is in place, including a Budget Programme Board to scrutinise progress.					Corporate Director (Finance & Procurement)	
Robust monitoring and forecasting of arrangements in place relating to the KCC budget as a whole					Corporate Director (Finance & Procurement)	
Programme Office in place providing independent assurance of significant transformational programme and project management across KCC to ensure appropriate benefits realisation, including delivery of savings. Reports to Corporate Board and Budget Programme Board as appropriate.					Head of Policy & Strategic Relationships	
Procedures for appropriate consultation in place (including Equality Impact Assessments) when decisions relating to changes in services are being considered					Head of Consultation & Engagement	
<b>Action Title</b>			<b>Action Owner</b>		<b>Planned Completion Date</b>	
Ensure existing controls and mechanisms remain robust during the coming years					March 2013 (review)	
Work closely with District Councils to finalise arrangements for localisation of council tax (cross-reference to Risk 12 Welfare Reform)					January 2013	
Delivery of Social Care Transformation Programme					2014/15	

Risk ID	CRR14	Risk Title	Procurement			
<b>Source / Cause of Risk</b>		<b>Risk Event</b>	<b>Consequence</b>	<b>Risk Owner</b>	<b>Current Likelihood</b>	<b>Current Impact</b>
As part of the transformation programme set out in <i>Bold Steps for Kent</i> , the Authority is moving towards more strategic commissioning arrangements. This will put even greater emphasis on the importance of robust procurement and commissioning arrangements and contract management.		Commercial or contractual failure of suppliers A procurement process is challenged because it is considered to be discriminatory or to have failed to adhere to procedures set out in procurement law. Potential conflict between best price and <i>Bold Steps for Kent</i> objectives Non-delivery of procurement savings	Providers fail to deliver expected benefits. Service users / residents of Kent suffer – potential legal, financial and reputational implications. Procurement processes may have to be halted / restarted, which has service and financial implications	On behalf of CMT: Corporate Director Finance & Procurement  <b>Responsible Cabinet Member(s):</b>  Finance & Business Support	Possible (3)  <b>Target Residual Likelihood</b> Unlikely (2)	Significant (3)  <b>Target Residual Impact</b> Significant (3)
<b>Control Title</b>				<b>Control Owner</b>		
KCC Procurement Strategy sets out the strategic approach to procurement across the Authority				Head of Procurement		
<i>Spending the Council's Money</i> – Code of Practice setting out how strategic approach to procurement is to be achieved at operational level.				Head of Procurement		
Procurement Board in place, establishing clear agreed relationships, support, information flow, governance structures and accountability between different levels of commissioning and procurement.				Head of Procurement		
iProcurement rolled out, as an online way of making and managing requisitions and purchases				Head of Procurement		
Some Procurement training in place (see action below)				Head of Procurement		
Category Management approach established				Head of Procurement		
Procedures for appropriate consultation in place (including Equality Impact Assessments) where procurement and commissioning decisions are being considered				Head of Consultation & Engagement		
<b>Action Title</b>		<b>Action Owner</b>		<b>Planned Completion Date</b>		
Promote procurement training for KCC managers as part of <i>the Kent Manager</i> standard		Head of Procurement		March 13 (review)		
Completion of Category Management strategies		Head of Procurement		January 2013 (review)		
Jointly develop procurement protocol with Legal Services to clarify the respective responsibilities of these two functions and service managers.		Head of Procurement / Director of Governance & Law		January 2013		

By: Cabinet Member for Finance and Business Support  
Corporate Director of Finance & Procurement

To: Governance and Audit Committee – 19 December 2012

Subject: **TREASURY MANAGEMENT 6 MONTH REVIEW  
2012/13**

Classification: Unrestricted

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Summary: To present the Treasury Management 6 Month Review.

**FOR DECISION**

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**INTRODUCTION**

1. This is a 6 month update on treasury management issues.

**BACKGROUND**

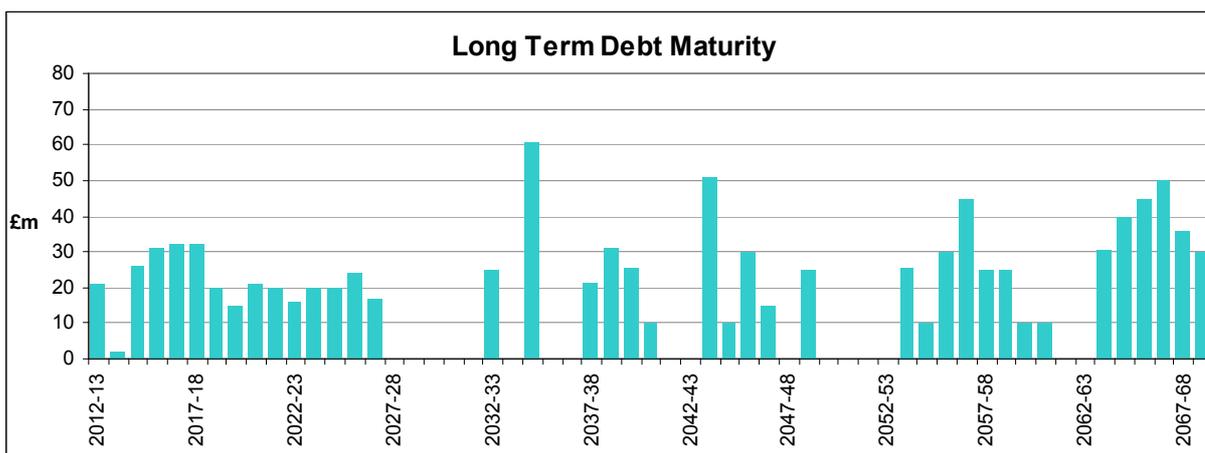
2. The Treasury Management Strategy for 2012/13 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
3. The Code also recommends that members are informed of Treasury Management activities at least twice a year-in fact we report to each meeting of this committee. This report therefore ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.
4. 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."
5. Although formally this report is to 30 September it covers developments in the period since up to the date of this report.
6. If agreed by members this 6 month report will then go on to Council.

**DEBT MANAGEMENT**

7. The PWLB remains the preferred source of borrowing for the Council as it offers flexibility and control. From 1 November 2012, the Government reduced by 20 basis points (0.2%) the interest rates on loans from the

PWLB to principal local authorities who provided the required information on their plans for long-term borrowing and associated capital spending. KCC completed the information request and, as a consequence, qualifies to receive the certainty rate discount on PWLB loans from 1 November 2012 to 31 October 2013.

8. The large downward move in gilt yields in the second quarter resulted in PWLB rates falling across all maturities. However taking new borrowing still involves a very significant long term revenue cost to the Council. For the Council the use of internal resources in lieu of borrowing has continued to be the most cost effective means of funding capital expenditure. This has lowered overall treasury risk by reducing both external debt and temporary investments.
9. During August a £55m PWLB loan was repaid using the Council's cash balances and there was no rescheduling of existing debt in the 6 months.
10. As at 30 September the Council had long term borrowings of £1,033million with a maturity profile as follows:



Total external debt included £44.3m of pre LGR debt relating to Medway Council and £2.7m for other bodies.

11. In November a further £20m PWLB loan was repaid using cash in hand.
12. As a result of repaying the loans the average portfolio interest rate for 2012-13 has increased by 0.14% to 5.44% and the average life of the portfolio from 30.13 years to 30.83 years.
13. It is forecast that debt costs for 2012-13 will be £2.8m less than budget due to deferring borrowing in 2011-12 and no new borrowing being taken in 2012-13.

## **INVESTMENTS**

14. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield

commensurate with these principles. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012/13.

15. The Council's criteria for the selection of counterparties are:
  - A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
  - Publicised credit ratings for institutions (the Council's minimum long-term counterparty rating is A- or equivalent).
  - Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.
  - Country exposure e.g. Sovereign support mechanisms, GDP, net debts as a percentage of GDP.
  - Exposure to other parts of the same banking group.
  - Reputational issues.
  
16. New investments have been made in Term Deposits and Certificates of Deposit (CDs) with the following UK Banks and Building Societies systemically important to the UK:
  - Barclays
  - HSBC
  - Lloyds Banking Group
  - Royal Bank of Scotland
  - NatWest
  - Santander UK
  - Standard Chartered
  - Nationwide

and in T-Bills and DMADF (Debt Management Office) deposits
  
17. In June Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the ratings downgrades were Barclays, HSBC, Royal Bank of Scotland. Separately, the agency also downgraded the ratings of Lloyds Bank, Bank of Scotland, National Westminster Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A- credit rating threshold.
  
18. As a result of the ratings downgrades deposit durations were shortened in June. They were then extended at the end of July having taken account of advice from Arlingclose whose assessment of the creditworthiness of the financial institutions had shown continued signs of stabilisation, and in some cases, considerable improvement. At the present time the maximum durations advised by Arlingclose for UK institutions are:

- Santander UK for a maximum period of **100 days**;
- Royal Bank of Scotland, National Westminster, Lloyds TSB and Bank of Scotland for a maximum period of **6 months**;
- HSBC Bank, Standard Chartered, Nationwide BS and Barclays for a maximum period of **12 months**.

The Council's maximum maturities for new investments are:

- Royal Bank of Scotland, National Westminster, Santander UK - **overnight**
- Lloyds TSB, Bank of Scotland, Barclays and Nationwide BS for a maximum period of **100 days**
- HSBC Bank and Standard Chartered for a maximum period of **12 months**.

19. At its meeting in September Cabinet approved the use of the following Australian and Canadian counterparties. At the current time not all of the banks listed take deposits and rates are quite low. However, we now have alternative options to using the DMO in the event of further downgrades of UK financial institutions.

- Australia and New Zealand Banking Group
- National Australia Bank
- Westpac Banking Corp
- Commonwealth Bank of Australia
- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Toronto Dominion Bank

The maximum duration is 12 months and the maximum limit with any one bank is £25m with the maximum exposure to either country being £50m. To date no deposits have been made with these counterparties.

20. A list of the Council's deposits on 16 November is attached at Appendix 1.
21. The average cash balances during the 6 months were £325m representing the Council's reserves, working cash balances, capital receipts and schools balances etc. This figure will come down with the debt repayment of £75m. Cash balances are expected to be lower towards the end of the financial year.
22. The UK Bank Rate has been maintained at 0.5% since March 2009 and is not expected to rise until 2015/2016. New investments were made at an average rate of 0.84%. The Council anticipates an investment outturn of £2.57m / 0.86% for the whole year.

## **ICELAND**

23. Current recoveries from Icelandic banks are £37.7m comprising:

- Heritable dividends totalling 74.56p in £ or £13.7m
- Landsbanki - 3 dividends of £8.1m, 47.63% of the total due
- Glitnir – in March 2012 a full recovery was made.

## **COMPLIANCE WITH PRUDENTIAL INDICATORS**

24. The Council can confirm that it has complied with its Prudential Indicators for 2012/13 set as part of the Council's Treasury management Strategy Statement. Details can be found in Appendix 2.

## **RECOMMENDATION**

25. Members are asked to endorse this report and recommend that it is submitted to Council.

**Alison Mings**  
**Treasury and Investment Manager**  
**Ext: 7000 6294**

## KCC Deposits as at 16 November 2012

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate	Territory
		£		%	
Fixed Deposit	Bank of Scotland	5,000,000	07/05/2013	1.6	UK Bank
Fixed Deposit	Bank of Scotland	5,000,000	06/02/2013	1.3	UK Bank
Fixed Deposit	Barclays Bank	5,000,000	31/05/2013	6.8	UK Bank
Same day Call Deposit	Barclays Bank (FIBCA)	20,000,000	n/a	0.7	UK Bank
Same Day Call Deposit	Lloyds TSB	6,250,000	n/a	0.75	UK Bank
Fixed Deposit	Lloyds TSB	5,000,000	01/02/2013	1.3	UK Bank
Fixed Deposit	Lloyds TSB	5,000,000	03/05/2013	1.6	UK Bank
Same Day Call Deposit	NatWest	23,350,000	n/a	1.15	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	5,000,000	18/10/2013	1.1325	UK Bank
Same Day Call Deposit	Royal Bank of Scotland	45,000,000	n/a	1.25	UK Bank
Same Day Call Deposit	Santander UK	25,000,000	n/a	0.8	UK Bank
Certificate of Deposit	Standard Chartered	10,000,000	22/11/2012	0.85	UK Bank
Certificate of Deposit	Standard Chartered	10,000,000	30/11/2012	0.92	UK Bank
Certificate of Deposit	Standard Chartered	20,000,000	03/12/2012	0.92	UK Bank
Certificate of Deposit	Standard Chartered	10,000,000	12/12/2012	0.92	UK Bank
	<b>Total UK Bank Deposits</b>	<b>199,600,000</b>			
Fixed Deposit	Nationwide Building Society	900,000	19/11/2012	0.35	UK Building Society
	<b>Total UK Building Society Deposits</b>	<b>900,000</b>			
Treasury Bill	Debt Management Office	20,000,000	03/12/2012	0.338	UK Government
	<b>Total UK Govt. Deposits</b>	<b>20,000,000</b>			
	<b>Total Icelandic Bank Deposits</b>	<b>16,840,924</b>			Iceland Bank
	<b>Grand Total of All Deposits</b>	<b>237,340,924</b>			

## 2012-13 Qtr 2 Monitoring of Prudential Indicators

### 1. Estimate of capital expenditure (excluding PFI)

Actual 2011-12 £265.761m

Original estimate 2012-13 £278.885m

Revised estimate 2012-13 £256.344m (this includes the rolled forward re-phasing from 2011-12)

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

	<b>2011-12 Actual</b>	<b>2012-13 Original Estimate</b>	<b>2012-13 Forecast as at 31-10-12</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Financing Requirement	1,495.873	1,538.083	1,521.559
Annual increase in underlying need to borrow	22.273	21.939	25.686

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 2011-12 12.85%

Original estimate 2012-13 11.77%

Revised estimate 2012-13 14.06%

### 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 2012-13

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

	<b>Prudential Indicator</b>	<b>Position as at</b>
	<b>2012-13</b>	<b>31.10.12</b>
	<b>£m</b>	<b>£m</b>
Borrowing	1,154	989
Other Long Term Liabilities	0	0
	1,154	989

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

	<b>Prudential Indicator</b>	<b>Position as at</b>
	<b>2012-13</b>	<b>31.10.12</b>
	<b>£m</b>	<b>£m</b>
Borrowing	1,198	1,033
Other Long Term Liabilities	0	0
	1,198	1,033

**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 2012-13 are:

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

	£m
Borrowing	1,195
Other long term liabilities	0
	1,195

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

	£m
Borrowing	1,238
Other long term liabilities	0
	1,238

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 2012-13

Fixed interest rate exposure	100%
Variable rate exposure	50%

These limits have been complied with in 2012-13.

## 8. Upper limits for maturity structure of borrowings

	Upper limit	Lower limit	As at 31.10.12
	%	%	%
Under 12 months	10	0	2
12 months and within 24 months	25	0	0.2
24 months and within 5 years	40	0	8.6
5 years and within 10 years	30	0	10.4
10 years and within 20 years	30	10	11.8
20 years and within 30 years	30	5	14.4
30 years and within 40 years	30	5	12.7
40 years and within 50 years	40	10	17.5
50 years and within 60 years	40	10	22.4

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

Indicator	Actual
£50m	£10m

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By: Cabinet Member for Finance & Business Support  
Corporate Director of Finance & Procurement

To: Governance & Audit Committee – 19 December 2012

Subject: **DEBT MANAGEMENT**

Classification: Unrestricted

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Summary: To report on the Council's debt position

## **FOR ASSURANCE**

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### **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 31 October 2012 as shown on Oracle Accounts Receivable Business Intelligence Suite is £39,540,534.41. This represents social care debt from SWIFT of £17,960,662.38 (26,967 invoices) and sundry debt of £21,579,872.03 (3,998 invoices). Any debts paid by instalments but originating from a single invoice are counted only once. The sundry debt figures includes tagged FSC Health debt of £2,026,242.59, although please see Paragraph 15 for further details of this.
4. The detail around the Social Care element of debt can be found in sections 14 - 20, with earlier sections referring to AR sundry debt only. The Social Care debt reflects the four weekly client billing process run on 16th October 2012. The outstanding debt as at 16<sup>th</sup> October 2012 was £18,865,253.94.
5. 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 current directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date

for Sundry Debt, but is based on invoice date for Social Care debt owing to the ongoing nature of the billing through which invoices are issued every four weeks.

6. The table below is an analysis of the summary position as at 31 October 2012.

Invoice Type Name	AR Overdue 0-60 Amount	AR Overdue 61-181 Amount	AR Overdue 182+ Amount	Total AR Outstanding Amount
<b>BSS</b>	£454,742.04	£475,032.31	£229,235.60	£4,512,733.10
<b>C&amp;C</b>	£260,719.74	£217,300.24	£59,990.66	£5,289,972.94
<b>E&amp;E</b>	£2,790,221.88	£293,981.63	£275,777.90	£4,030,143.05
<b>EDUKENT</b>	£175,292.97	£695,017.20	£19,209.67	£1,094,144.49
<b>ELS</b>	£59,763.11	£57,334.50	£589,378.00	£1,173,743.73
<b>FSC</b>	£435,432.34	£467,339.80	£1,671,548.54	£5,479,134.72
<b>Grand Total</b>	<b>£4,176,172.08</b>	<b>£2,206,005.68</b>	<b>£2,845,140.37</b>	<b>£21,579,872.03</b>

The above figures do not include those debts which are not yet due, which total £12,352,553.90.

## **PERFORMANCE**

7. 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 75%
- Total outstanding sundry debt over 6 months old – less than 20%

As at 31 October 2012 76.59% of the total sundry outstanding debt is under 60 days old and 13.18% is over 6 months old.

## **DEBT LEVELS OVER SIX MONTHS OF AGE**

8. Below is an analysis of the categories of debt over 6 months old by Directorate, followed by more detailed analysis.

9. BSS

<b>DEBT CATEGORY</b>	<b>BSS</b>
AR SECURED DEBT	£8,027.75
EDUKENT	£249.50
EXCHEQUER ONGOING ACTION	£55,393.95
INSTALMENT - SMALL CLAIMS	£51.60
INSTALMENTS	£3,290.99
LIQ'S/INSOLV'S/RECV	£4,200.00
REFERRED FOR WO	£6,334.02
REFERRED TO DIRECTORATE	£149,130.69
SMALL CLAIMS COURT	£2,557.10
<b>Grand Total</b>	<b>£229,235.60</b>

- The £55.4k marked as Ongoing Action represents 56 invoices, the largest being an invoice to for £15.3k raised to Medway Council. After ongoing efforts by the team this has just been paid.
- The £149.1k marked as Referred to Directorate represents 52 invoices, the largest being a repayment of an empty property loan of £100k. Discussions with Legal and the Regeneration Manager are ongoing in order to generate receipts against the debt and £50k is expected to be paid by the end of November, with the remaining amount paid in twelve months.

10. ELS

<b>DEBT CATEGORY</b>	<b>ELS</b>
EDUKENT	£179,872.45
EXCHEQUER ONGOING ACTION	£78,693.25
INSTALMENTS	£16,860.47
INTERNAL	£2,250.00
LIQ'S/INSOLV'S/RECV	£1,011.96
PAID TO CS IN ERROR	£54,411.79
REFERRED FOR WO	£114,203.00
REFERRED TO DIRECTORATE	£137,511.37
REFERRED TO LEGAL	£19,016.27
SMALL CLAIMS COURT	£4,007.11
UNTAGGED	£750.00
<b>Grand Total</b>	<b>£608,587.67</b>

- The £137.5k marked as Referred to Directorate for action represents 29 invoices. Of these there are 2 invoices totalling £113k invoiced to Maidstone & Tunbridge Wells NHS Trust in

respect of Kent Portage Services. These have been referred to the ELS Finance Business Partner

- The £114k marked as Referred for Write Off represents 9 invoices, the largest of which is £104k raised to West Kent PCT, again for Portage Services and referred to the ELS Finance Business Partner
- The £78.7k marked as Ongoing Action represents 42 invoices, although 23 of these are for under £100.00. The largest invoice is for £29.7k raised in March 2012 to The London Borough of Wandsworth for Recoupment of Independent School Fees. The Debt Recovery Team Leader is now chasing this debt with the debtor directly.
- EduKent debt – There are two particularly large debts. The first is for £88.6k; this is owed by Woodard Academies, and is being referred to the ELS Finance Business Partner for resolution. There is also a debt of £60k owed by Herne Bay High School which cannot be paid until they receive their money from Canterbury City Council.
- £0.8k currently does not have a tag status and this will be corrected next month

#### 11. E&E

<b>DEBT CATEGORY</b>	<b>E&amp;E</b>
EDUKENT	£4,473.05
EXCHEQUER ONGOING ACTION	£26,572.92
INSTALMENT - SMALL CLAIMS	£20.00
INSTALMENTS	£2,245.71
INSURANCE	£28,646.79
LIQ'S/INSOLV'S/RECV	£31,377.36
REFERRED FOR WO	£911.72
REFERRED TO DIRECTORATE	£169,675.26
REFERRED TO LEGAL	£11,855.09
<b>Grand Total</b>	<b>£275,777.90</b>

- The £169.7k marked as Referred to Directorate for Action represents 59 invoices, the largest being £25.1k to West Kent College for S278 Costs for carriageway widening and Pelican crossing costs, raised on 18 August 2011. The Debt team are in liaison with the Directorate as the debtor is requiring detailed breakdowns from them, and the Debt Recovery Team Leader recently became involved in this case.

12. FSC

<b>DEBT CATEGORY</b>	<b>FSC</b>
EDUKENT	£135.00
EXCHEQUER ONGOING ACTION	£48,270.01
HEALTH DEBT - EK	£195,518.58
HEALTH DEBT - HQ	£99,872.62
HEALTH DEBT - SECURED - WK	£55,741.48
HEALTH DEBT - WK	£1,043,333.13
INSTALMENT - SMALL CLAIMS	£2,601.97
INSTALMENTS	£32,430.35
LIQ'S/INSOLV'S/RECV	£362.00
REFERRED FOR WO	£44,767.01
REFERRED TO DIRECTORATE	£93,546.62
REFERRED TO LEGAL	£54,209.88
SMALL CLAIMS COURT	£516.16
UNTAGGED	£243.73
<b>Grand Total</b>	<b>£1,671,548.54</b>

- The £93.5K marked as Referred to Directorate for Action relates to 43 invoices, with an average value of £2.2k. The largest value invoice is £35.0k. Since the debt report was run, payment is now allocated against this invoice for all but the tax amount of £5.8k and discussion is ongoing to resolve this.
- The total of the four Debt Categories for Health Debt relates to 50 invoices. There are 2 invoices over £100k in value. One is £400k raised in February 2011 to West Kent PCT in respect of the re-ablement fund agreement for the year 2010-11. The Director of Commissioning and Provision for FSC has previously advised that the invoice is on hold pending final discussions for the year's re-ablement monies, owing to the PCT having picked up some of KCC's costs. The other is £196k raised in March 2011 to Lambeth Primary Care Trust in respect of reimbursement for CHC funding for a residential placement for the period June 2010 – March 2011. The Director of Learning Disability and Mental Health Services is in ongoing discussion with Legal Services regarding this invoice.
- £0.2k currently does not have a tag status and this will be corrected next month

13. C&C

<b>DEBT CATEGORY</b>	<b>C&amp;C</b>
AR SECURED DEBT	£4,111.25
AUTOMATIC WRITEBACK	£63.73
EDUKENT	£1,807.60
EXCHEQUER ONGOING ACTION	£9,365.84
INSTALMENTS	£1,550.43
PAID TO CS IN ERROR	£24.50
REFERRED FOR WO	£6,231.48
REFERRED TO DIRECTORATE	£31,441.54
REFERRED TO LEGAL	£4,451.38
SMALL CLAIMS COURT	£942.91
<b>Grand Total</b>	<b>£59,990.66</b>

- The £31.4k marked Referred to Directorate represents 12 invoices.

**INSTALMENT PAYMENTS**

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

<b>Directorate</b>	<b>Number of Cases</b>	<b>Total Value £</b>
<b>BSS</b>	17	£14,368.17
<b>ELS</b>	5	£3,362.87
<b>C&amp;C</b>	10	£15,897.95
<b>E&amp;E</b>	28	£46,624.82
<b>FSC + KASS (Sundry)</b>	28	£45,948.86
<b>Total</b>	<b>88</b>	<b>£126,202.67</b>

**SUNDRY HEALTH DEBT**

15. The Sundry Health debt is analysed every four weeks by the Social Care Debt Recovery staff. The Sundry Health Debt as at 16<sup>th</sup> October 2012 was identified as being £4,106,553.78, comprising of 106 invoices. As at 31<sup>st</sup> October 2012 the value of those invoices identified at the previous billing run had decreased to £2,0262,42.59, comprising 96 invoices, although this does not include new Sundry Health invoices raised since 16<sup>th</sup> October. The reduction is considerable because some particularly large and newer invoices had been paid, including two invoices raised on 19 September 2012 for £1,000,000.00 each.

**TRENDS**

16. 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 2012	30 April 2011	30 April 2010	30 April 2009	30 April 2008
12%	8%	6%	11%	12%

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

	11-12	10-11	09-10	08-09
Number of invoices raised	32,029	29,336	30,369	34,097
Value of invoices raised	£160,139,056	£176,597,554	£183,961,032	£183,804,045

### **WRITE OFFS**

18. The table below shows the sum written off as at 31 October 2012. This data is based on the write offs input to the Receivables system in 2012/13 rather than the year they have been allocated to GL.

<b>Sundry Actual</b>	
<b>Directorate</b>	<b>Total (£)</b>
BSS	6,387.31
C&C	2,410.14
E&E	11,134.78
ELS	1,035.49
FSC	16,347.42
<b>TOTAL</b>	<b>37,315.14</b>

### **SOCIAL CARE DEBT**

#### **19. Client Charging**

- (i) Clients are financially assessed to determine their contribution towards either their residential or non residential care costs.
- (ii) Residential Charging - This charging is distinct from non-residential 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.
- (iii) 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 by the cabinet member for Adult Social Care & Public Health, Kent has started charging for day care from 23<sup>rd</sup> July 2012.

- (iv) In 2011-12 the total amount of income charged to clients through the client billing system was as follows:

Residential	£48,803k
Non Residential	£11,174k
<b>Total</b>	<b>£59,977k</b>

### **ANALYSIS OF CLIENT RELATED DEBT**

20. As at the billing run on 16th October 2012 the overall client related social care debt stood at £18,865k, the debt can be broken down as follows:

Residential	£16,366k
Domiciliary	£2,499k
<b>Total</b>	<b>£18,865k</b>

21. Of the £18,865k only £14,173k is actually due for payment, invoices had only just been dispatched for the remaining £4,692k.
22. The £14,173k can be broken down between secured and unsecured debt as follows:

<b>Debt Category</b>	<b>Total (£)</b>
Unsecured – Ongoing Clients	5,054.5k
Unsecured – Terminated/Deceased Clients	1,229.0k
<b>Total Unsecured</b>	<b>6,283.5k</b>
Secured with Legal Charges	7,893.4k
Health Contributions	-3.6k
<b>Overall total of due debt</b>	<b>14,173.3k</b>

## **AGED ANALYSIS OF CLIENT RELATED DEBT**

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

	<b>Under 6 months</b>	<b>6 months to a year</b>	<b>Over One Year</b>	<b>Total</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>	<b>£k</b>
<b>Unsecured - Ongoing</b>	2,500.1k	965.1k	1,589.4k	5,054.5k
<b>Unsecured - Deceased/terminated</b>	155.3k	223.3k	850.3k	1,229.0k
<b>Total Unsecured Client Debt</b>	<b>2,655.4k</b>	<b>1,188.4k</b>	<b>2,439.7k</b>	<b>6,283.5k</b>

## **NUMBERS OF UNSECURED DEBTORS**

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

	<b>Numbers</b>
Unsecured – Ongoing Debtors with Debts	11,707
Unsecured Deceased/Terminated Debtors with Debts	679
Total Unsecured Debtors	12,386

## **BAD DEBT PROVISION – CLIENT RELATED**

25. The total bad debt provision that exists for client related debt at the end of 2011-12 was £3,798k. This is calculated by looking at the value of all of the debts under various debt categories, covering secured, unsecured and Health. It also takes into account the age of the debt.

26. The total provision includes £2,385k 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.

27. The general provision is £1,413k. 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. The percentages for the main categories used in the general provision on the remaining outstanding invoices are shown in the following table.

<b>Debt Provision %</b>	<b>Under 6 months</b>	<b>Over 6 months</b>
	%	%
DEFERRED PAYMENT - SECURED	0%	2%
DEFERRED PAYMENT - UNSECURED	5%	60%
ESTATE	10%	20%
HEALTH - HOLDING	10%	20%
HEALTH DEBT – WEST KENT	10%	20%
INSTALMENTS	5%	40%
LEGAL CHARGE SEC 22	0%	2%
PARKED TERMINATED	100%	100%
REFERRED FOR WRITE OFF	100%	100%
REFERRED TO LEGAL	5%	60%
SOLICITORS UNDERTAKING	0%	5%
TERMINATED SERVICE	33%	75%
UNSECURED	5%	60%
UNSECURED - FORWARDED FOR LEGAL CHARGE	0%	10%

### **WRITE OFFS**

28. The sum written off as at 31 October 2012 for Social Care through Client Billing is £66,198.76. The data is based on write offs input to the Receivables system in 2012/13 rather than the year they have been allocated to GL.

### **RECOMMENDATION**

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

**Nick Vickers**

Head of Financial Services  
01622 694603

**To:** Governance & Audit Committee

**From:** Mike Hill, Cabinet Member, Customer & Communities  
Amanda Honey, Corporate Director, Customer & Communities

**Date:** 19 December 2012

**Subject:** RIPA report on surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2012 – 30 September 2012

**Classification:** Unrestricted

## FOR ASSURANCE

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**Summary** This report outlines work undertaken by KCC Officers on surveillance, the use of covert human intelligence source (CHIS) and access to telecommunications data governed by the Regulation of Investigatory Powers Act 2000 (RIPA) during the first half of the 2012/13 business year.

It also sets out changes necessary to the KCC policy to meet the requirements of the Protection of Freedoms Act 2012 with effect from 1 November 2012.

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### 1. Background

- 1.1. The document sets out the extent of Kent County Council's use of covert surveillance, covert human intelligence sources and access to telecommunications data. The County Council wishes to be as open and transparent as possible, to keep senior officers informed and to assure the public these powers are used only in a 'lawful, necessary and proportionate' manner.
- 1.2. To achieve transparency and in accordance with the Codes of Practice, an annual report outlining the work carried out is submitted by the Senior Responsible Officer (SRO) to an appropriate Committee. The last report (for 2011 and the first 3 months of 2012) was submitted and approved by Governance and Audit Committee on 26 July 2012.

### 2. What this report covers

- 2.1 Covert Surveillance – intended to be carried out without the person knowing and in such a way that it is likely that private information may be obtained about a person (not necessarily the person under surveillance). Local authorities are only permitted to carry out certain types of covert surveillance and for example cannot carry out surveillance within or into private homes or vehicles (or similar "bugging" activity).
- 2.2 Covert Human Intelligence Source (CHIS) – the most common form is an officer developing a relationship with an individual without disclosing that it is being done on behalf of the County Council for the purpose of an investigation. In most cases this would be an officer acting as a potential

customer and talking to a trader about the goods / services being offered for sale. Alternatively, a theoretical and rare occurrence would be the use of an 'informant' working on behalf of an officer of the Council. In such cases, due to the potential increased risks, KCC has agreed an MOU with Kent Police.

- 2.3 Access to telecommunications data – Local authorities can have limited access to data held by telecommunications providers. Most commonly this will be the details of the person or business who is the registered subscriber to a telephone number. Local authorities are not able to access the content of communications and so cannot “bug” telephones or read text messages.
- 2.4 In each of the above scenarios an officer is required to obtain authorisation from a named senior officer before undertaking the activity. This decision is logged in detail, with the senior officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing an authorisation document. For surveillance and Chis this document is then held on a central file. There is one central file for KCC, held on behalf of the Corporate Director Customer and Communities, which is available for inspection by the Office of the Surveillance Commissioners. For telecommunications authorisations KCC uses the services of the National Anti Fraud Network to manage applications and keep our records. This was on the advice of the Telecommunications Commissioner.

### **3. RIPA work carried out between 1 April – 30 September 2012**

- 3.1. Total number of authorisations granted (figure for same period in 2011) :

Surveillance – 10 (15)

6 of these authorisations relate to the selling of counterfeit goods using the social media site internet sites. Guidance from the Commissioner is that authorisation should be sought where we are accessing these sites covertly for enforcement purposes. As a result of these authorisations, 5 arrests have been made and over 13,000 counterfeit items have been seized.

Covert human intelligence source (CHIS) – 7 (5)

All of these authorisations relate to officers taking the role of customer in a purchase of illegal goods. Some are linked to the same operations where surveillance was carried out. One of particular interest was in relation to the sale of counterfeit vehicle maintenance software. This is the software used by garages to know how to service a car and what safety recalls are due. The counterfeit version does not contain the correct information and could, therefore, put road safety at risk.

Access to telecommunications data – 23 (23)

The majority of these authorisations are for either the sale of counterfeit goods or doorstep frauds.

In relation to the counterfeit goods, many of the authorisations are linked to those enquiries where surveillance and CHIS work was also authorised. This

demonstrates that, although there will only be one registered outcome, several authorisations are necessary to achieve this.

In relation to the doorstep frauds, many of the enquiries are ongoing. At the present time 3 arrests have been made and some cases are with Legal Services with a view to reaching a decision in relation to prosecution. One case involves a fraud of over £45000 and another a case where the victim was assaulted, possibly by the perpetrator of the fraud.

Included in these figures are 1 surveillance authorisation and 3 telecommunications authorisations for the Clean Kent Team.

#### **4. Protection of Freedoms Act 2012**

- 4.1 On 1 November 2012 the Protection of Freedoms Act came into force meaning that a new system of judicial approval for local authority use of RIPA came into force. This will involve seeking an order from a Magistrate each time an authorisation is granted. KCC's RIPA policy has been updated to reflect this change.
- 4.2 The new policy does not change the way in which, or purposes for which KCC uses RIPA powers.

#### **5. Recommendations**

Members are asked to:-

- a) Note for assurance the use of the powers under RIPA during the period.
- b) Note for assurance that the necessary amendments have been made to the RIPA policy which accommodate the requirements of the Protection of Freedoms Act 2012.

#### **Background Documents**

KCC RIPA Policy (updated)

#### Contact Officer

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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 – 19 December 2012

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

Classification: Unrestricted

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**Summary:** The Audit Commission's Annual Audit letter provides a summary of the most important findings from their 2011/12 audit.

## **FOR ASSURANCE**

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### **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 2011.
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 2011/12 Audit plan and includes:
  - The audit opinion and financial statements
  - Value for money
  - Current and future challenges
5. The Letter reaffirms the unqualified opinion on the 2011/12 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.

**Neeta Major**  
**Interim Head of Internal Audit**  
**X4664**

22 October 2012

Members  
Kent County Council  
County Hall  
Maidstone  
Kent  
ME14 1XQ

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commission.gov.uk

Dear Member

## **Kent County Council Annual Audit Letter 2011/12**

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Kent County Council and the Pension Fund that it administers.

### **Financial statements of the Council and Pension Fund**

On 26 July 2012 I presented my Annual Governance Report (AGR) to the Governance and Audit Committee detailing the findings of my audit of the Council's 2011/12 financial statements and the Pension Fund it administers. I also reported my findings of the audit of the Pension Fund to the Superannuation Fund Committee on 31 August 2012. There are no matters arising from my audit of the Council's accounts or the Pension Fund that I need bring to your attention. I do not repeat my detailed findings reported in my Annual Governance Report in this letter.

### **Value for money conclusion**

To conclude whether the Council has proper arrangements for securing economy, efficiency and effectiveness in its use of resources I reviewed during the year:

- financial resilience arrangements;
- The Council's response to the changing public services agenda;
- New corporate governance arrangements for decision making;
- Developments in the Council's risk and performance management arrangements; and
- How the Council considers value for money in children's services.

I issued an unqualified value for money conclusion and made some recommendations to strengthen arrangements further.

The Audit Commission requires me to report by exception on any other significant additional matter that comes to my attention and which I consider to be relevant to the establishment of proper arrangements to secure economy, efficiency and effectiveness in the use of resources. I consider the findings of the Ofsted inspection in October 2010 to be a significant matter. Ofsted concluded that the overall effectiveness of safeguarding children and young people services and services for looked after children were inadequate, identifying significant 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.

The Council is working to an agreed improvement plan but as Ofsted have not carried out a re-inspection during 2011/12 I continued to report the above as an exception matter.

### **Reporting the results of my audit**

Following the Governance and Audit Committee on 26 July I:

- issued an unqualified opinion on the Council's 2011/12 financial statements included in the Authority's Statement of Accounts on 26 July;
- issued an unqualified opinion on the Pension Fund 2011/12 financial statements included in the Pension Fund Annual Report on 5 October;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 26 July; and
- certified completion of the audit on 5 October 2012.

### **Future challenges**

Responding to the difficult financial climate while providing quality core services and delivering its ambitions as set out in 'Bold Steps' will continue to be a key challenge for the Council over the medium term. It estimates annual savings of between £60 and £80 million over the next few years. Savings of this scale coupled with the desire to protect frontline services requires a strong focus on transforming how services are delivered. A track record of; strong financial control, effective financial planning, embracing innovation, coupled with enhanced financial governance arrangements in 2011/12, provide a sound foundation to address this challenge.

**Closing remarks**

I have discussed and agreed this letter with the Head of Paid Service and Corporate Director of Finance and Procurement. While this has been another challenging year for all who work within local government, I wish to thank the finance staff for the positive and constructive approach that they have taken to my audit. I also wish to thank members, senior management and the Governance and Audit Committee for their support and co-operation during the audit.

Yours sincerely

Darren Wells  
District Auditor

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

To: Governance and Audit Committee – 19 December 2012

Subject: **External Audit – Progress Report December 2012**

Classification: Unrestricted

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**Summary:** This paper provides recent updates and information from the External Auditor, Grant Thornton UK LLP

## **FOR INFORMATION**

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### **Introduction and background**

1. In order that the Governance and Audit Committee is kept up to date with the work of Grant Thornton UK LLP, progress reports are written by the external auditor as appropriate.
2. The attached report covers the following areas:
  - audit planning 2012/13
  - grants certification
  - publications

### **Recommendation**

3. Members are asked to note the report.

**Neeta Major**  
**Interim Head of Internal Audit**  
**Ext: 4664**

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**KENT COUNTY COUNCIL**
**AUDIT PROGRESS REPORT – DECEMBER 2012**

<b>Work</b>	<b>Progress</b>
<b>Audit Planning – 2012/13</b>	<p>We have started preparations for the 2012/13 audit and are working with the Council on the audit testing requirements for the 2012/13 financial statements.</p> <p>As part of our wider audit planning we are holding joint meetings with internal audit in January 2013. We plan to meet with members of the Corporate Board to ensure our audit work is focused on the key risks facing the Council in respect of its financial statements audit and Value for Money conclusion.</p>
<b>Grant Certification</b>	<p>We are in the process of certifying the final claim from the Council in respect of 2011/12 grants. This work will be completed by the end of December 2012. On completion, we will issue a report to the Council which will document findings from 2011/12 grant audits and the costs of this work.</p> <p>Two of the 2011/12 claims were certified by your previous auditor, Audit Commission, with no issues noted. We have completed work on one grant claim in November 2012 which was certified with a qualification letter. Details of this will be included in the grants report.</p>
<b>Publications</b>	<p>Our second national study on financial resilience is due to be published on 6 December. The report 'Towards a Tipping Point?' draws on work completed to inform our 2011/12 value for money conclusions in local authorities. We will provide the Council with copies of the report on publication.</p> <p>Our recent survey of 200 mid-market businesses examines the extent to which sustainability issues are integrated into a company's DNA, embedded in its business model and reported on as such. Our report, 'Sustainable Businesses- Navigating towards a more sustainable future', examines these issues. This report is an insightful background into the sustainability challenges faced by businesses today and contains a section on the issues faced by local authorities. Hard copies of the report can be provided on request or accessed via the following link:</p> <p><u><a href="#">Sustainable Businesses - Navigating towards a more sustainable future</a></u></p>

**Grant Thornton UK LLP**
**December 2012**

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

To: Governance and Audit Committee – 19 December 2012

Subject: **External Audit – Fee letter 2012/13**

Classification: Unrestricted

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**Summary:** This paper presents the external audit fee for the Council for 2012/13

**FOR DECISION**

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**Introduction and background**

1. The Audit Commission independently set the proposed work programme and associated scale fees for the 2012/13 audit year. This is detailed in its publication 'Work Programme and Scales of Fees 2012/13: Local Government – April 2012'.

**Planned audit fee 2012/13**

2. The attached letter sets out the planned audit fee, proposed work programme for the 2012/13 financial year, audit timetable and key members of the Grant Thornton audit team. The work proposed by the external auditors covers three areas:
  - the audit of our financial statements
  - the work to reach a conclusion on the economy, efficiency and effectiveness in our use of resources (the value for money conclusion)
  - the work on our whole of government accounts return.
3. The audit fee proposed for 2012/13 is set at the scale fee of £207,900. This is a 40% reduction on the 2011/12 fee. At this stage of the planning process, Grant Thornton has not identified any local risk factors to vary from the scale fee.
4. The letter also sets out the proposed fees for the pension fund audit and grants certification work in 2012/13. These are £30,568 and £6,250 respectively.

## **Recommendation**

5. Members are asked to approve the fees proposed in the fee letter.

**Neeta Major**  
**Interim Head of Internal Audit**  
**Ext: 4664**

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12 November 2012

Dear David

### **Planned audit fee for 2012/13**

We are delighted to have been appointed by the Audit Commission as auditors to the Council and look forward to providing you with a high quality external audit service for at least the next five years. We look forward to developing our relationship with you over the coming months, ensuring that you receive the quality of external audit you expect and have access to a broad range of specialist skills where you would like our support.

The Audit Commission has set its proposed work programme and scales of fees for 2012/13. In this letter we set out details of the audit fee for the Council along with the scope and timing of our work and details of our team.

### **Scale fee**

The Audit Commission defines the scale audit fee as “the fee required by auditors to carry out the work necessary to meet their statutory responsibilities in accordance with the Code of Audit Practice. It represents the best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.”

For 2012/13, the Commission has independently set the scale fee for all bodies. The Council's scale fee for 2012/13 is £207,900 which compares to the audit fee of £346,500 for 2011/12, a reduction of 40%.

Further details of the work programme and individual scale fees for all audited bodies are set out on the Audit Commission's website at: [www.audit-commission.gov.uk/scaleoffees1213](http://www.audit-commission.gov.uk/scaleoffees1213).

The audit planning process for 2012/13, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

### **Scope of the audit fee**

Our fee is based on the risk based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2012/13. It covers:

- our audit of your financial statements

- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion)
- our work on your whole of government accounts return.

### **Value for money conclusion**

Under the Audit Commission Act, we must be satisfied that the Council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources, focusing on the arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

We undertake a risk assessment to identify any significant risks which we will need to address before reaching our value for money conclusion. We will assess the Council's financial resilience as part of our work on the VFM conclusion and a separate report of our findings will be provided.

Our planning to date has not identified any additional work which we are required to undertake to support our VFM conclusion. We will continue to assess the Council/Authority's arrangements and discuss any additional work required during the year.

### **Certification of grant claims and returns**

The Audit Commission has replaced the previous schedule of hourly rates for certification work with a composite indicative fee. This composite fee, which is set by the Audit Commission, is based on actual 2010/11 fees adjusted to reflect a reduction in the number of schemes which require auditor certification and incorporating a 40% fee reduction. The composite indicative fee grant certification for the Council is £6,250. This assumes no additional testing is required.

### **Pension Fund audit**

The Audit Commission has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £30,568. Our work on the pension fund will be undertaken in June 2013 by our specialist pension fund audit team.

### **Billing schedule**

Our fees are billed quarterly in advance. Given the timing of our appointment we will raise a bill for two quarters in December 2012 with normal quarterly billing thereafter. Our fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
December 2012	103,950
January 2013	51,975
March 2013	51,795
<b>Grant Certification</b>	
June 2013	6,250
<b>Total</b>	<b>214,150</b>

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**Pension Fund audit**

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March 2013	30,568
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**30,568**

**Outline audit timetable**

We will undertake our audit planning and interim audit procedures in January to March 2013. Upon completion of this phase of our work we will issue our detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VFM conclusion will be completed in June and July 2013 and work on the whole of government accounts return in September 2013.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	January to March 2013	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VFM.
Final accounts audit	June to July 2013	Report to those charged with governance	This report will set out the findings of our accounts audit and VFM work for the consideration of those charged with governance.
VFM conclusion	January to July 2013	Report to those charged with governance	As above
Financial resilience	January to June 2013	Financial resilience report	Report summarising the outcome of our work.
Whole of government accounts	September 2013	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2013	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
Grant certification	June to December 2013	Grant certification report	A report summarising the findings of our grant certification work

**Our team**

The key members of the audit team for 2012/13 are:

	<b>Name</b>	<b>Phone Number</b>	<b>E-mail</b>
Engagement Lead	Darren Wells	01293 554130	Darren.j.wells@uk.gt.com
Engagement Manager	Elizabeth Olive	0207 728 3329	Elizabeth.l.olive@uk.gt.com

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Pensions Audit Manager	Lynn Clayton	01293 554039	lynn.h.clayton@uk.gt.com
Audit Executive	Anna Tollefson	0207 728 3344	anna.tollefson@uk.gt.com
Pensions Audit Executive	Harpal Singh	01293 554130	harpal.singh@uk.gt.com

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**Additional work**

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed and a detailed project specification and fee agreed with the Council.

**Quality assurance**

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Paul Dossett, our Public Sector Assurance regional lead partner (paul.dossett@uk.gt.com) .

Yours sincerely



Darren Wells  
For Grant Thornton UK LLP

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By: Neeta Major – Interim Head of Internal Audit  
To: Governance and Audit Committee – 19 December 2012  
Subject: **Internal Audit Progress Report**  
Classification: Unrestricted

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**Summary:** This report summarises the outcomes of Internal Audit activity since the September 2012 Governance and Audit Committee.

## **FOR ASSURANCE**

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### **Introduction**

1. This report summarises:
  - the key findings from completed Internal Audit reviews;
  - progress against, and any amendments to, the 2012/13 Internal Audit Plan since the last report to the Governance and Audit Committee;
  - achievement against Internal Audit's Key Performance Indicators; and
  - organisational progress on implementation of agreed recommendations.

### **Overview of Progress**

2. Appendix 1 details the outcome of Internal Audit work completed, at draft report stage or in progress for September 2012 to December 2012. During this period 16 assurance/advisory reviews were finalised and 18 draft reports were issued or are in the process of being finalised. Fieldwork is in progress for a further 16 audits.
3. Progress against the Audit Plan for 2012/13 is 61% complete at 1 December 2012. This is compared to a prorated target of 60% (based on the annual target to achieve 90% of the Audit Plan). Progress against Plan has improved due to more targeted chasing of responses from auditees and a new protocol agreed by CMT to improve the process for finalising reports.
4. Progress against targets for other agreed Internal Audit Key Performance Indicators (KPIs) for the 2012/13 year are detailed within Appendix 1.
5. Progress of Directorates in the implementation of agreed recommendations arising from our audit reports shows that of 61 recommendations due in the reporting period 24 have been implemented. 37 recommendations have been rescheduled or are in the process of being followed up. The majority of those rescheduled relate to system enhancements or changes required that impact on the ability to deliver to original timescales; 4 of these are high priority. Delay in implementation has been reviewed and is not considered to represent a significant risk to the Council at this time.

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## **Implications for Governance**

6. Summaries of findings from completed work have been included within Appendix 1. Where audits completed in the year have identified areas for improvement management action has been agreed. All audits are allocated one of five assurance levels, for which definitions are included within the attached report.

## **Recommendation**

7. Members are asked to note:
- progress against the 2012/13 Audit Plan and proposed additions.
  - the assurances provided in relation to the Council's control environment as a result of the outcome of Internal Audit work completed to date.

## **Appendices**

### ***Appendix 1 Internal Audit Progress Report December 2012***

**Neeta Major**  
**Interim Head of Internal Audit**  
**Ext. 4664**



# Kent County Council

Internal Audit Progress Report December 2012

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# 1. Introduction

## 1.1 Purpose of this report

Internal Audit is an assurance function that provides an independent and objective opinion on the adequacy of the Council's control environment.

This report summarises the work that the Council's Internal Audit service has undertaken in 2012/13 to date. It also highlights any key issues with respect to internal control, risk and governance arising from that work.

## 1.2 Overview of work done

The Internal Audit Plan for 2012/13 includes a total of 65 projects at December 2012. We communicate closely with senior management throughout the year, to ensure that the projects actually undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.

As a result of this liaison, changes to the Plan may be made during the year. Details of the changes to the Audit Plan are reported to the Governance and Audit Committee throughout the year.

The following additions/deletions are proposed:

### **Additions**

Special Educational Needs Transport – at the request of the Corporate Director of Education, Learning and Skills following the SEN audit

Carbon Reduction Commitment - requirement for annual internal audit to support the submission returned to the Department of Energy

and Climate Change

### **Deletions**

Fixed Assets – Initial planning established that in-year testing would be of limited value as this is predominantly a year-end process that is reviewed by external audit.

Paper and card – Due to the separate Internal Audit Programme established for Kent Commercial Services.

The East Kent Payroll audit - Shown as a separate piece of work on the original Plan, this will now be incorporated into the main Payroll audit.

### **Deferral**

Complaints, comments and compliments – Due to work in progress to centralise the process and develop one system for authority-wide use this audit will now be undertaken in quarter one of 2013/14.

The following work has been undertaken since the September Governance and Audit Committee:

- 16 final reports/assurance/advisory work completed
- 18 draft reports issued or in the process of being finalised
- Fieldwork has commenced on a further 16 audits

Summaries of all final reports issued since the last Committee meeting can be found at Appendix A.

Overall progress on the 2012/13 Plan can be found at Appendix B.

### **1.3 Objectives**

The majority of reviews internal audit undertake are designed to provide assurance to management on the operation of the Council's internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice. These are followed up as they fall due and implementation progress is reported in Appendix E.

Other work undertaken includes the provision of specific advice and support to management, attendance at key working groups, internal audit of parishes, internal audit of Kent Fire and Rescue and the certification of grant claims. Details are provided in Appendix C.

## 2. Internal Audit Performance

Internal Audit's performance against our targets at November 2012 is shown below:

Performance Indicator	Target	Actual
<b>Effectiveness</b>		
% of recommendations accepted	98%	99%
<b>Efficiency</b>		
% of plan delivered (Note 1)	90% (60% prorated)	61%
% of available time spent on direct audit work	85%	86%
% of draft reports completed within 10 days of finishing fieldwork (Note 2)	90%	74%
Preparation of annual plan	By April	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
<b>Quality of Service</b>		
Average Client satisfaction score (Note 3)	90%	78%

### Note 1

Internal Audit's progress against plan has improved due to more targeted chasing of responses from auditees and a new protocol agreed by CMT to improve the process for finalising reports.

### Note 2

For 2011/12 we achieved a rate of 50% against this target. Performance compared to 11/12 has improved through focusing more effort on this target, identifying where problems may be occurring and implementing corrective action wherever appropriate. It should be noted that all draft reports relating to the 2012/13 Plan have been issued within the 10 day target.

### Note 3

The issue of several limited assurance opinions in recent months has impacted on this metric. This is unavoidable for a service which by its very nature relies on feedback from the teams it has to review and challenge. No performance concerns have been highlighted from the client feedback responses.

# Appendix A

## Summary of individual Internal Audits issued since September 2012

### Consultation

#### Scope

The overall objective of the audit was to provide an assurance that the Council's system of consultation is adequate, effective and minimises the risk of judicial review to the Council.

#### Overall assessment - Adequate

The Council's core Consultation Team provide advice and guidance to staff as well as administering the Consultation Database on Kent.gov.uk. The team was established in its current form in September 2011 and have created a new consultation process, which they are currently implementing throughout the Council.

The 'Adequate' assurance is based on sample testing which showed that in most cases consultation is conducted when required with the correct target audience. All consultations tested had been analysed when appropriate and contributed to the decision making process.

However the audit highlighted several areas where improvements in control are suggested in order to reduce the risk of challenge and to assist the Council's defence in the event of any challenge.

Key areas where recommendations were made included prioritising ongoing briefing / awareness sessions for staff and Members; improving the level of information provided to consultees to ensure they understand the scope for influence; publishing up to date guidance to ensure that Directorates are aware of the Council's requirements in relation to consultations and including costings for proposed changes within consultations.

Ten recommendations were made, two of which are high priority.

### Case file audit

#### Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the children's case file audit process to ensure it meets its objectives of improved outcomes for children and young people, and the implementation of Ofsted recommendations with regard to performance management.

#### Overall assessment – Limited

The online case file audit is a new process managed by the Safeguarding Unit which has been developed over the last 12 months and is still subject to ongoing development and review. It was recognised at the commencement of the audit that due to the infancy of the process, some controls would not be embedded and therefore the audit provides an assessment of the current control environment with recommendations to assist the team in developing processes further.

The 'Limited' assurance is based on improvements required in relation to follow-up of cases rated inadequate and below by operational managers, data quality limitations, errors and inconsistencies in the moderation process and evidence of follow-up action by senior management to issues identified in reports.

However the Safeguarding Unit are continually reviewing the process and some improvements were implemented during the course of the audit. The majority of staff interviewed were supportive of the audit tool used to support the process and those that had attended training found this useful.

Eight recommendations were made of which seven are high priority.

## LASER Follow up review

### Scope

The overall objective of the audit was to provide follow up assurance on whether all recommendations from the independent report issued in April 2011 (or alternative actions) had been implemented. In addition the audit provided assurance over the effectiveness of tendering, evaluation and contract monitoring controls in relation to the energy procurement flexible and fixed contracts 2012-2016.

### Overall assessment - Adequate

The 'Adequate' assurance is based on interviews with key officers and review of relevant documentation in which we were able to verify that recommendations from the independent report, or alternative actions, had been implemented.

Based on the above and reliance on the work of other Kent County Council (KCC) departments, we were also able to verify the effectiveness of controls in relation to the energy procurement flexible and fixed contracts 2012-2016.

Six further recommendations were made, none of which are high priority.

The key recommendations are in relation to:

- A clear Risk Policy covering Kent Commercial Services;
- For future transitions, ensuring robust handover arrangements are in place;
- All project timetable dates and tender evaluation award criteria should be independently checked prior to publication; and
- All tender evaluations should be checked by someone independent of the preparer and be certified as such.

## Network Security and Infrastructure (LAN)

### Scope

The overall scope of this work was to provide assurance that the Corporate ICT Network Infrastructure provides the fundamental platform to support the delivery of the primary business application and communication systems, that the Council's ICT network infrastructure management control framework applies adequate and appropriate controls to address corporate ICT risks and regulatory obligations.

### Overall assessment - substantial

The 'Substantial' assurance is based on the controls implemented on the Network Security and Infrastructure which were deemed to be adequately managed.

Controls include network alerts for performance management and monitoring at pre-defined levels on network bandwidth and devices, a sound network topology in place which is monitored and provides resilience, and a defined change management process and clear decision making process.

Fifteen recommendations were made, none of which are high priority.

The key areas for focus are in relation to:

- User account management;
- Policies and standards;
- Updating the operating system for Cisco devices which is reaching the end of its life; and
- The establishment of a well defined "Technical Skills Strategy".

## Special Educational Needs

### Scope

The overall objective of the audit, which was requested by the Corporate Director of Education, Learning and Skills, was to provide assurance over the controls in place to identify available Special Educational Needs (SEN) funding, allocate funding appropriately and ensure achievement of value for money.

### Overall assessment – Limited

The key objectives of the SEN service are to enable Kent County Council (KCC) to carry out its statutory duty to identify, assess and make provision for children's special educational needs.

The 'Limited' assurance is based on the audit confirming necessary improvements in a number of areas including independent monitoring to confirm that delegated funding has been spent and is being managed effectively on SEN provision for children for whom it was intended and to achieve the desired outcomes.

The structure and arrangements for the Joint Resources Allocation Panel (JRAP) need to be reviewed as all present identifiable and estimated future years' costs of out-of-county or independent provision are not always provided and therefore decisions on placements are being deferred until future meetings.

In addition we recommended more specific analysis of non-delegated expenditure to identify how the SEN budget is being spent at a more detailed level including analysis of spend on suppliers of SEN services. This analysis of spend will ensure compliance with regulations and aid decisions to be taken to ensure value for money is obtained from current SEN service providers.

We have made ten recommendations, two of which are high priority.

## Kent Connexions

### Scope

The overall objective of the review was to provide advice over procurement and contract management practices in relation to the Kent Connexions Contract within Education, Learning and Skills and was requested by ELS management.

### Overall Assessment – N/A (Advisory only)

The contract with Connexions is due to finish in March 2013. The contract appears to have been managed reasonably well and an examination of the service's quarterly contract review process has not identified any major performance issues.

The audit confirmed that improvements could have been made in relation to the wording within the contract specification, and the sealing of the contract and any variations. Advisory recommendations have been made to address these issues.

In addition advice was provided on future contracts to ensure appropriate involvement of the Procurement and Legal teams and clear tender specifications, and to advise that "Not less than" clauses are not good practice for contracts of this type and should not be used.

## Household Waste and Recycling Centres

### Scope

The Contract Compliance Audit was limited to the Household Waste and Recycling Centres within E & E Directorate. The objectives of the review were to provide assurance that sound contract management practices existed and were effective, that Value for Money had been secured where possible and relevant and to provide assurances on proposed operational policies due to be implemented in September 2012

### Overall assessment - Adequate

There is a network of 19 Household Waste and Recycling Centres (HWRCs) contracts with an annual value of approx £8.6m generating an income of £1.5m. The network manages 27% of Kent's Waste and recycles 70%. 17 sites are managed by contractors ranging from SMEs to larger national companies and the other 2 are managed by Kent Commercial Services ("KCS"). At the end of July/August 2013, the contracts with the existing service provider are due to expire and the findings from this review were used to inform Waste Management for their procurement exercise.

The 'adequate' assurance level reflects that the contracts are being managed reasonably well. However there are some improvements that would enhance management arrangements and operations. In particular easy access to key contract documentation is essential in the overall management of these contracts; at the moment this not working effectively.

Other recommendations included supporting Waste Management's approach to phasing out arrangements to forfeit rights to metal income for a small fee, maintaining plant items (such as containers and compactors) and scheduling a programme of maintenance and asset refurbishment, clarifying the inspection systems, checks of transfer notes and improvements to contract site visit checks.

We made twelve recommendations, two of which are high priority.

## Foster Care Payments System

### Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to meet the objectives of the Foster Payments System (FPS). In particular the audit reviewed the key financial controls in place for Foster Care Payments to ensure the accuracy, appropriateness and completeness of payments made.

### Overall assessment – Limited

It is acknowledged that there have been changes to the Foster Payments team in both staffing and location following the Finance restructure and that the team are relatively new to their roles and may have therefore inherited gaps in controls in relation to the FPS. Hence the findings from this review can be used by the new team as a benchmark position to help inform planned changes.

The 'Limited' assurance is based on weaknesses in certain areas where controls could be tightened further, which include authorisation and set up of a Carer, input verification of annual rates and the day to day input by Foster Payment Officers (FPOs). Also controls surrounding changes to placements and security of personal data.

There are processes in place for setting up and updating Foster Carers' records, generating the pay run regularly, and facilitating recovery of overpayments. However there are weaknesses within these processes.

Eleven recommendations have been made, six of which are high priority.

## Authority Wide Compliance with Blue Book - Managing Sickness Absence

### Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating to ensure that sickness absence is being managed in accordance with the Blue Book.

### Overall assessment – Substantial

The Blue Book sets out the terms and conditions of employment and applies to all employees on the Kent Scheme, non schools. Section K-Managing Attendance, details the terms and conditions relating to sickness absence and sick pay provisions, also detailing reporting requirements and what is required at the different stages of sickness and entitlements.

The 'Substantial' assurance is based on the audit confirming that there are guidelines in place for managing and reporting sickness and that there is reasonable assurance that sickness is being captured and reported accurately due to the awareness training that is provided by HR.

The audit highlighted certain areas where controls could be tightened further. These included local records held of sickness to enable monitoring and validation of reported sickness, monitoring by the HR Business team of timed out sickness, monitoring of long term and reoccurring sickness by the HR Advisory team and compliance with the Blue Book by Managers. Also controls surrounding notification of Occupational Health referrals and the ability to report on those employees receiving extended sick pay could be enhanced.

Six recommendations were made, none of which are high priority.

## Accounts Receivable

### Scope

The overall objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to meet the objectives of the Accounts Receivable (AR) system in relation to the accuracy, completeness and timeliness of invoices raised and payments received.

### Overall assessment – Adequate

There have been significant changes in both staffing and location following the Finance restructure with the Assessment and Income Team only being in place since 27<sup>th</sup> June 2012. It was noted during the audit that the team were already putting in place processes to rectify some of the issues identified as part of this audit.

The adequate assurance level reflects that there is a formal process in place for raising invoices and a debt recovery process for chasing overdue invoices. Write offs are made in accordance with the Debt Management Policy and all those sampled had been approved by the appropriate manager and written back to the correct budget code.

However, there are certain area where controls could be further improved including the Human Resource Business Centre should improve the accuracy of notifications of salary overpayments and the extent of background information to aid recovery and it should be ensured that teams responsible for debt recovery outside the Assessment and Income team apply consistent procedures.

We have made eight recommendations, none of which are high priority. In addition two recommendations made as a result of the 2011/12 audit were not due for implementation at the time of the audit and will be addressed subsequent to this audit through the normal follow-up process

## Establishments

### Scope

A programme of compliance audits began in late June, initially focusing on Children's Centres, but including a day centre for adults. This programme has now been expanded to include Pupil Referral Units. To date fieldwork has been completed at 15 Children's Centres, one Adult Day Care Centre and we have reviewed financial controls in two districts where this activity is centralised. The audits review financial controls, performance management, inspection standards, and safety and security. One final report and 11 draft reports have been issued with a further six due imminently.

### Summary of findings

There is no significant change in the themes arising from establishment audits completed since the September Governance and Audit Committee. In general we have continued to find that Centres are able to demonstrate that they are engaging with Centre users and partner organisations, including hard to reach groups, promoting diversity and using evaluation tools positively to identify areas for improvement. Training plans are in place and relate to personal action plans and service priorities.

Recommendations have been made in relation to safety and security policy and procedures to further enhance controls. Areas for improvement include that accident and incident forms are being completed but are often not numbered, not all Centres could evidence recent health and safety inspections and, while fire safety standards were generally good, some Centres had experienced difficulties with other users in shared premises.

In relation to financial controls a number of recommendations have been made. Key areas include enhancing controls in relation to income generation, better use of commitment budgeting, improved controls in relation to purchases and raising awareness of the need for staff to complete declarations of business interests. In addition asset registers were not all up to date and the £200 lower limit for inclusion may increase the risk of loss of attractive portable items.

# Appendix B

## Detailed Analysis of Internal Audit Progress on 2012/2013 Plan

Project	Progress at December 2012	Date to G&A	Overall Assessment	Project	Progress at December 2012	Date to G&A	Overall Assessment
<b>Core Assurance</b>							
Corporate Governance	Phase 1 Complete	Sept 2012	Substantial				
Annual Governance Statement	Complete	Sept 2012	Substantial				
Schemes of Delegation	Planning						
Risk Management	Planning						
Business continuity and resilience planning	Planning						
Performance Management Framework	Planning						
Information Governance	Planning						
Data Quality – Authority wide	Planning						
Procurement	Fieldwork in progress						
Business and Financial Planning	Draft Report						
Partnerships	Fieldwork in progress						
Managing Absence	Complete	December 2012	Substantial				
Learning and Development	Planning						
'Other' Leave	Draft Report						
Leaving the organisation	Complete	Sept 2012	Substantial				
Workforce Planning	Planning						

Project	Progress at December 2012	Date to G&A	Overall Assessment	Project	Progress at December 2012	Date to G&A	Overall Assessment
<b>Core Financial Assurance</b>							
General Ledger	Planning			Schools Financial Compliance-advisory	In progress – ongoing		
Accounts Payable	Planning			Schools Financial Compliance	Planning		
Accounts Receivable	Complete	December 2012	Adequate	Local budgetary control reviews	Planning		
iProcurement	Planning			Financial Control Audits	In progress*		
Corporate Purchase Cards	Fieldwork in progress			VAT	Planning		
Capital Programme - Planning and Monitoring	Planning						
Revenue Budget Monitoring	Fieldwork in progress						
Treasury Management and Pension Investments	Planning						
Pension Contributions	Planning						
Fixed Assets	Cancelled	N/a	N/a				
Payroll	Fieldwork in progress						
East Kent Payroll	See above						
Social Care Client Billing	Planning						
Foster Care Payments	Complete	December 2012	Limited				

\* Relates to the annual programme of establishment visits, progress and key themes are summarised on p.8

Project	Progress at December 2012	Date to G&A	Overall Assessment	Project	Progress at December 2012	Date to G&A	Overall Assessment
<b>Risk/Priority Based Audit</b>							
Service Re-design	Draft Report			Kent Connexions	See Contract Compliance		
Locality Boards	Fieldwork in progress		Advisory review	Consultation	Complete	December 2012	Adequate
Regeneration and Economy - RGF	Interim report			No Use Empty Property	Complete	September 2012	Adequate
Property Disposals	Draft Report			Troubled Families	Fieldwork in progress		
Developer Contributions (s106)	Draft Report			Broadband Delivery UK	Fieldwork in progress		
Safeguarding Adults	Fieldwork in progress			Communication Strategy	Planning		
Personal Budgets	Fieldwork in progress			Complaints, comments and compliments	C/f to Q1 2013/14		
Strategic Commissioning	Interim Report			Commercial Services – Laser	Complete	December 2012	Adequate
Case File Audit process	Complete	December 2012	Limited	Carbon Reduction Commitment	Fieldwork in progress		
FSC Data quality	Draft Report			Special Education Needs - Transport	Planning		
Financial Management - FSC	Incorporated into financial control audits						
Management of complaints	Incorporated into Corporate review						
Establishment Visits	In progress*	Update to every G&A					
Public Health responsibilities	Planning						
Special Education Needs	Complete	December 2012	Limited				

\* Relates to the annual programme of establishment visits, progress and key themes are summarised on p.8

Project	Progress at December 2012	Date to G&A	Overall Assessment	Project	Progress at December 2012	Date to G&A	Overall Assessment
<b>Contract Compliance</b>							
ICT Procurement (was Kent Public Service Network)	Planning						
Ashford Gateway Plus	Fieldwork in progress						
Supporting People	Planning						
Longfield Academy	Fieldwork in progress						
Professional and Highway Consultancy contract	Final Report	September 2012	Limited				
Network Management Term Maintenance	Planning						
East Kent Waste Partnership	Draft report						
Biffa Household Waste Recycling Centre	Final Report	December 2012	Adequate				
Paper and card	Cancelled	N/a	N/a				
Kent Connexions	Final Report	December 2012	N/a – advisory only				
Leaving care service	Fieldwork in progress						

# Appendix C

## Other 2012/2013 Work Undertaken by Internal Audit

### Grants

The Internal Audit team is responsible for auditing and signing off grant claims to enable the Council to recover money from a number of sources, in particular Interreg projects. This year to date the total value verified is approximately £1.2m. With a 50% grant recovery rate, this equates to grant income to the Council of approximately £500,000 and £125,000 for other bodies including Visit Kent, Locate in Kent and Kent Fire and Rescue Service. Time spent on verifying and signing off grant claims is chargeable.

### Parishes

Kent County Council Internal Audit currently offers a comprehensive internal audit service for Local Councils and other bodies. We are the appointed auditor for 13 of Kent's parish councils, a role we have fulfilled for some of these councils for over 10 years. In addition we provide internal audit services to the Kent & Essex Inshore Fisheries and Conservation Authority and to the Stag Community Arts Centre.

From April 2012 to November 2012 we have undertaken 30 audits for these bodies, with a further 5 audits scheduled to be completed in the remainder of 2012/13.

### Significant Ad Hoc/Advisory Work and Attendance at Key Working Groups

Internal Audit continues to monitor and act on reported Direct Payment irregularities, which were identified by the Audit Commission as a major area of risk for local authorities; so far 20 such irregularities have been reported in 2012-13.

Other significant ad hoc/advisory work includes ongoing advice and support in relation to Kings Hill disposals, completion of five pieces of advisory work to provide management advice and interim reports with advisory recommendations in relation to the Adult Social Care Transformation Programme and the Regional Growth Fund.

Internal audit have also attended, or are virtual members of, the following groups in an advisory capacity:

- ERP Programme Board
- Business Continuity Management
- Information Governance Cross Directorate Group
- Procurement standard working papers working group
- Social Fund Localisation

# Appendix D

## Internal Audit Assurance Levels

Key	
High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level of non-compliance with some controls that may put system/service objectives at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant of error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.
Not Applicable	Internal audit advice/guidance no overall opinion provided.

# APPENDIX E

## Progress with Implementation of Recommendations

Audit	Recommendations to be implemented by 31 October 2012		Recommendations outstanding as at 31 October 2012		Comments	Revised implementation date
	H	M	H	M		
<b>Authority Wide</b>						
Schemes of Delegation	1	6	1	6	Implementation is currently in progress and will be followed up as part of the 2012/13 audit therefore implementation dates have been revised.	31/03/13
Procurement	0	2	0	0	Recommendations implemented	
Health and Safety at Work	0	2	0	1	One recommendation has been implemented. A revised implementation date has been agreed for the second recommendation as work is in progress with a Statement of Policy due for finalisation in December.	31/12/12
Managing Change	0	2	0	2	These recommendations will be addressed as part of the next scheduled review and update of the Blue Book; hence the implementation date has been revised.	31/01/12
Recruitment and Selection	2	1	0	0	The medium priority recommendation has been implemented. However, testing is required on the two high priority recommendations and this is in progress.	
Leaving the Organisation	0	2	0	2	Revised implementation date as the recommendations are in progress.	31/03/2013
<b>Core Systems</b>						
Oracle – Accounts Receivable	0	2	0	1	One recommendation has been implemented, we are in the process of following-up the remaining recommendation to confirm implementation.	

Audit	Recommendations to be implemented by 31 October 2012		Recommendations outstanding as at 31 October 2012		Comments	Revised implementation date
	H	M	H	M		
Cashiering and Bank reconciliations	0	6	0	0	Recommendations implemented	
Oracle – General Ledger	0	2	0	2	Recommendations have revised implementation dates due to the finance restructure.	31/12/2012
Firewalls and Firewall Management	0	7	0	6	One recommendation completed the other 6 recommendations have revised implementation dates due to the migration from old firewalls to new, which require new procedures..	31/12/2012 – 01/07/2013
Exchange Server and e-mail	0	1	0	0	Recommendation implemented	
IT Support Arrangements	0	1	0	0	Recommendations implemented	
Registrations	0	3	0	3	All recommendations have revised implementation dates due to a change in the responsible officer and ongoing negotiations with the system supplier	01/04/2013
Business Objectives	0	2	0	0	Recommendations implemented	
PC End User Controls	0	2	0	1	One recommendation implemented, one revised implementation date due to ongoing issues with the IT security system.	31/03/2013
Capita One	1	5	1	5	All recommendations have revised implementation dates due to ICT restructure and the potential for a system upgrade next year.	31/12/2012
Direct Payments	2	2	2	1	Follow-up of these recommendations is in progress, we are currently reviewing evidence provided to date.	TBC
<b>Risk Based</b>						
No Use Empty Homes	0	7	0	3	Four recommendations have been implemented. The remaining 3 recommendations are in progress and therefore have a revised implementation date.	31/12/2012

Audit	Recommendations to be implemented by 31 October 2012		Recommendations outstanding as at 31 October 2012		Comments	Revised implementation date
	H	M	H	M		
<b>Total</b>	<b>6</b>	<b>55</b>	<b>4</b>	<b>33</b>		

H = High risk

M = Medium risk

By: Anna Simmonds, Commercial Services Internal Audit Manager

To: Governance and Audit Committee – 19 December 2012

Subject: **Kent Commercial Services Internal Audit Work Programme (June 2012 – March 2013)**

Classification: Unrestricted

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**Summary:** This report details the Kent Commercial Services Internal Audit Work Programme for 2012-2013

## **FOR INFORMATION**

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### **Introduction**

1. This report sets out the Kent Commercial Services (KCS) Internal Audit Work Programme covering the period June 2012 to March 2013.
2. As reported by the KCC Interim Head of Internal Audit on 18 April 2012 (within the KCC Internal Audit Strategy and Annual Audit Plan 2012-2013), KCS planned to appoint dedicated resources to undertake internal audits.
3. In June 2012, a Commercial Services Internal Audit Manager was appointed who reports to the Commercial Services Director of Finance, but also has a professional reporting line to the KCC Interim Head of Internal Audit. It should also be noted that a Commercial Services Senior Internal Auditor was appointed in October 2012.
4. Due to the relatively recent appointment of the team the Commercial Services Internal Audit Manager has developed an initial programme of internal audit work, as agreed by the KCS Executive and KCC Interim Head of Internal Audit. The Commercial Services Governing Board has also had sight of the programme. This initial programme is attached at Appendix A for information and is an addition to the programme of work presented to Governance & Audit Committee in April 2012.
5. This programme distinguishes between assurance and advisory work. It covers key financial areas, along with areas of significant change occurring within KCS.

### **Development of Audit Plan**

6. The internal audit work programme for June 2012- March 2013 was developed primarily through discussions with KCS Directors and Heads of Businesses, taking into account the KCS risk registers, its annual governance statement return and business reviews. It has been presented as an addition to the overall KCC audit plan

7. From 2013-2014, the KCS Internal Audit team will be more established and the KCS internal audit programme will be presented for approval by Governance and Audit Committee as part of the KCC Internal Audit plan.

### **Recommendation**

8. Members are asked to NOTE for information the Commercial Services Internal Audit Work Programme covering 2012/13 attached to this report.

### **Appendices**

Appendix A                    **Commercial Services Internal Audit programme June 2012 – March 2013**

**Anna Simmonds**  
**Commercial Services Internal Audit Manager**  
**Ext : 5452**

## Internal Audit Work Programme for July 2012 – March 2013

### Assurance Reviews

These reviews will result in a formal assurance opinion of the area subject to review. In addition to being considered by the CS Executive Board and management, such reviews will be presented to the KCC Head of Internal Audit and subsequently reported to Governance and Audit Committee. These reviews will also be formally reported in the annual internal audit report and used to inform both the production of the Annual Governance Statement (AGS) for KCC and internal audit plan for 2013-14.

Audit	Reason for Audit	Audit Details	Audit Owner	Audit Contact	Staff Involved	Timing
Core Assurance, Risk and Governance Reviews						
Transformation Programme Follow Up Progress	Provide management and KCC with an update as to the progress made to implementing the change programme.	A follow up review of the actions and recommendations raised in the previous Governance reviews.	CS Executive Board	Various	As noted in Engagement Plan document.	DRAFT Report Issued
Core Finance Reviews						
General Ledger	Key financial systems audit to allow KCC and External Audit to place reliance.	A review over the controls of the general ledger transactions including; journals, virements, suspense accounts and system reconciliations.	Les Coulson <i>Director of Finance</i>	<i>Head of Finance</i> <i>Finance Manager</i>	<i>Finance Manager</i>	Dec 2012

<b>Audit</b>	<b>Reason for Audit</b>	<b>Audit Details</b>	<b>Audit Owner</b>	<b>Audit Contact</b>	<b>Staff Involved</b>	<b>Timing</b>
Accounts Receivable	Key financial systems audit to allow KCC and External Audit to place reliance.	<p>A review of the accounts receivable system including debtors accounts, debt collection and recovery, raising of credit notes, monitoring of aged debt and write offs.</p> <p>This review will also extend to the processes operated by a sample of divisions in respect of raising debtors invoices. Including:</p> <ul style="list-style-type: none"> <li>- Kent County Supplies inc. Furniture</li> <li>- Landscape Services</li> <li>- Kent Top Temps</li> <li>- Transport Services</li> <li>- County Print</li> </ul>	Les Coulson  <i>Director of Finance</i>	<i>Head of Finance</i>  <i>Exchequer Manager</i>	<i>Operations Manager- Educational Supplies</i>  <i>Business Manager- Furniture</i>  <i>Business Manager - Landscapes</i>  <i>Operations Manager- Kent Top Temps</i>  <i>Business Manager – Direct Services</i>  <i>Business Manager – CP&amp;D</i>	IN PROGRESS
Accounts Payable	Key financial systems audit to allow KCC and External Audit to place reliance.	<p>A review of the accounts payable system including controls over ordering and the processing and payment of invoices.</p> <p>This review will also extend to the processes operated by a sample of divisions in respect of purchasing and raising orders. Including:</p> <ul style="list-style-type: none"> <li>- LASER</li> <li>- Kent County Supplies inc. Furniture</li> <li>- Care Services</li> <li>- Landscape Services</li> <li>- Kent Top Temps</li> </ul>	Les Coulson  <i>Director of Finance</i>	<i>Head of Finance</i>  <i>Exchequer Manager</i>	<i>Head of PSG</i>  <i>Director of Energy</i>  <i>Director of Care</i>  <i>Business Manager - Landscapes</i>  <i>Operations Manager- Kent Top Temps</i>	IN PROGRESS

<b>Audit</b>	<b>Reason for Audit</b>	<b>Audit Details</b>	<b>Audit Owner</b>	<b>Audit Contact</b>	<b>Staff Involved</b>	<b>Timing</b>
Payroll Processing	Key financial systems audit to allow KCC and External Audit to place reliance.	A review of key controls over the payroll system including starters, leavers, changes, the salary payrun and payroll budget monitoring.  <i>Coverage will be restricted to those CS staff currently employed by KTT Ltd.</i>	Robert Palmer  <i>Head of HR</i>	<i>Payroll Manager</i>	<i>Payroll Manager</i>	Jan 2013
Income Collection, Banking and Bank Account Reconciliations	Key financial systems audit.	A review of the key controls over the collection of physical income and banking processes. As well as coverage of the bank account reconciliation process.  This review will also cover the operations of the post room in dealing with, security and transfer of income received and will also consider any other divisions where physical income may be received.  <ul style="list-style-type: none"> <li>- Waste Management</li> <li>- Simplicare Outlet</li> <li>- Transport Services</li> </ul>	Les Coulson  <i>Director of Finance</i>	<i>Head of Finance</i>  <i>Exchequer Manager</i>  <i>Finance Manager</i>	<i>Operations Manager-Simplicare</i>  <i>Business Manager-Direct Services</i>  <i>Waste Site Manager</i>  <i>Business Manager-Fleet</i>	DRAFT Report Issued
<b>Change Assurance Reviews</b>						
PCI Compliance	Introduction of additional methods of card payments.  To comply with industry practice to take card payments CS should be compliant with PCI DSS. <sup>1</sup>	Assessment of CS compliance with PCI DSS by various divisions including:  <ul style="list-style-type: none"> <li>- Exchequer Services</li> <li>- Care Services</li> <li>- Transport Services</li> <li>- Waste Management</li> </ul>	Les Coulson  <i>Director of Finance</i>	<i>Head of Finance</i>  <i>Exchequer Manager</i>  <i>Finance</i>	<i>Operations Manager-Simplicare</i>  <i>Business Manager – Direct Services</i>  <i>Waste Site Manager</i>	Jan 2013

<sup>1</sup> Payment Card Industry Data Security Standards

<b>Audit</b>	<b>Reason for Audit</b>	<b>Audit Details</b>	<b>Audit Owner</b>	<b>Audit Contact</b>	<b>Staff Involved</b>	<b>Timing</b>
				<i>Manager</i>	<i>Business Manager-Fleet</i>	
Data Protection	Compliance with data protection is essential given the amount of customer data that will be obtained by the organisation.	Review of the methods and processes of governing, protecting and use of personal data within the organisation. To ensure compliance with the Data Protection Act 1998.  <i>Request made to Information Commissioner Office to undertake an advisory review that internal audit will be able to place reliance upon.</i>	David Jackson  <i>Director of Planning</i>	<i>Director of Planning</i>	<i>Head of Business Solutions</i>	TBC
LASER – Billing	LASER customers have requested independent assurance that billing processes are robust.	This review will cover the arrangements in place for billing customers, including billing verification and rebate processes.  Data analytic tools will be used to analyse existing data to select a sample of accounts that should be tested and highlight any other anomalies such as duplicate data and data exceptions outside normal parameters.  The findings of this review will also feed into the GEMS II Project by highlighting any control weaknesses that may be addressed in the new software and potential for data cleansing.	Rob Morgan  <i>Director of Energy</i>	<i>System Administrator</i>	<i>System Administrator</i>  <i>Head of Business Solutions</i>	Dec 2012
KCS – One Office Application	Assurance needed over successful upgrade of One Office Application	General application and key control review of One Office upgrade. This will also involve some data analysis of duplicate data and incomplete data held	Steven Munday  <i>Director of</i>	<i>System Administrator</i>	<i>System Administrator</i>	Jan 2013

Audit	Reason for Audit	Audit Details	Audit Owner	Audit Contact	Staff Involved	Timing
Review	Office system.	on the system.  The One Office upgrade occurred on 18 <sup>th</sup> August.	<i>Education Supplies</i>			

## Advisory Reviews

These reviews will be advisory and consultative in nature to assist CS Board and management achieve its long-term objectives and business plans. They will not result in a formal assurance opinion, however formal reports will be produced detailing the outcome of the work performed. These reviews will also be used to inform the production of the Annual Governance Statement (AGS) for KCC, the annual internal audit report and will inform the internal audit plan for 2013-14.

Audit	Reason for Audit	Audit Details	Audit Owner	Audit Contact	Staff Involved	Timing
Core Advisory Risk and Governance Reviews						
Entity Wide Control Review	<p>This will predominantly inform the production of IA Strategy for the next 3 years and Plan for 2013-14.</p> <p>It will also identify areas lacking policies and procedures that need to be produced once the new entity structure is complete.</p>	<p>This is a high level review of the organisational control environment that will cover risk and governance arrangements.</p> <p><b>NOTE:</b> <i>The consultancy piece of work commissioned to review the business plans, targets and implementation of the recommendations from the ROAD reviews will be used as a form of reliance for this piece of work.</i></p> <p><i>Furthermore, the Fraud Manager at KCC has been tasked with delivering fraud training to commercial services, which will be included as part of this review.</i></p>	Ian McPherson  <i>Managing Director</i>	<i>Managing Director</i>	Various	Ongoing
Project Advisory Reviews						
Office Move	Advisory input due to the significance and large scale of the project.	<b>IT Resilience:</b> This review will form part of the review of the overall project management process, to include transition arrangements in place over IT to ensure the continued provision and back up of systems and that current IT Disaster Recovery plans remain applicable.	David Jackson  <i>Director of Planning</i>	<i>Head of Business Solutions</i>	<i>Head of Business Solutions</i>	Feb 2013

Payroll System (SAGE)	Advisory input due to implementation of new software and processes.	Risk and control input into the payroll project. Review of PID and other project documentation and attendance at project meetings resulting in interim reports highlighting any areas for consideration by management over the management and progress of the project, as well as risks that may need to be mitigated.	Robert Palmer <i>Head of HR</i>	<i>HR Operations Manager</i>	<i>HR Operations Manager</i>  <i>Project Manager</i>	Ongoing
GEMS II	Advisory input due to the significance reliance on the system and large scale of the project.	High level review of the recruitment and procurement process of the Project Manager and Software Developer.	David Jackson <i>Director of Planning</i>	<i>Project Manager</i>	<i>Head of PSG</i>  <i>Head of Business Solutions</i>	Dec 2012

## LIST OF POTENTIAL AREAS FOR INCLUSION IN THE INTERNAL AUDIT WORK PROGRAMME COVERAGE FOR 2013 ONWARDS

Below are areas of CS that could be included in future years internal audit work programme:

Area	Rationale
IT Disaster Recovery Arrangements	<p>Assurance required that critical business IT and technology can be recovered and continue to be used after the move.</p> <p>Post the move and expected relocation of the servers, this review will consider the IT and technology disaster recovery arrangements in place to ensure that they are robust and adequately tested to ensure the availability of critical IT and technology to CS in the event of a disaster.</p> <p>Quarter 1 2013-14.</p>
IT Health Check	A general review of access controls and physical security over IT after the move and formation of new companies.
Effectiveness of the Board	Given that the establishment of a Board of Directors will be new to CS and KCC, this review will consider how the Board operates to ensure it is fit for purpose and effective.
Follow Up	<p>It is intended that a mechanism will be introduced by internal audit, supported by the CS Executive Board to monitor and track the implementation of actions arising from all internal audit reviews.</p> <p>A review to provide assurance that such actions have been addressed as recorded by management will need to take place annually.</p>
GEMS II	A review to provide assurance that the project is achieving it's intended objectives and that appropriate system controls have been built within the system.
Project Management and Methodology Compliance	<p>To ensure that an appropriate and consistent project management framework and methodology is adopted by CS and is complied with.</p> <p><i>This may not be deemed necessary dependent on the outcome of the project advisory reviews.</i></p>
Health and Safety	Given the operations of many of the CS businesses, health and safety is a high risk area that should be subject to periodic review across the whole of the organisation.

	<i>During November 2012 CS operations have been subject to a Health and Safety review undertaken by KCC.</i>
Contract Monitoring and Management	The failure of contracts could have a detrimental impact on the reputation of CS. Furthermore, poorly managed contracts do not provide CS and their customers value for money and may even result in additional costs.
Customer Management	A review into the processes and steps taken to retain customers and measure/deal with customer satisfaction and feedback.
LASER Rebate Methodology	Management and customers may require assurances that the rebate, from the fraud case, calculation and processing methodology is fair and robust.
Rebate Processing	The appropriateness and methodology in processing rebates as part of the KCS and PSG should be open and transparent to provide assurance to stakeholders. Furthermore. Mechanisms should be in place to ensure that rebates due to CS are identified and calculated correctly.
HR - Recruitment	Recent high levels of recruitment may warrant a review to ensure that processes are efficient, appropriate, authorised and fair.
HR – Performance Management	As a result of the management and organisation restructure there is a need to ensure that management apply HR policies and processes consistently.  This review would include the appraisal process, dealing with poor performance and training.
Business Continuity	To ensure that critical business functions will be available to customers, suppliers, regulators, and other entities that must have access to those functions in the event of adverse circumstances.
Budget Monitoring	A management control to ensure that expenditure and income is well controlled. This may also consider Commitment Accounting.
WIP Monitoring	Management of work in progress will be key for some businesses of CS going forward to improve and maintain cashflow.
Value for Money review of Business Development	As CS moves into more commercial activities and supplies new customers, there will be a greater need for business development and sales functions. This review will look to assure management that the targets achieved can be validated and an acceptable

	return on investment is achieved.
Due Diligence Process	If CS look to acquire businesses to achieve growth, a comprehensive due diligence process will need to be introduced and complied with.
BACS Payments	CS will be entering a new BACS contract from 1 <sup>st</sup> April 2013. This review will ensure that appropriate controls have been introduced and operational.
Overtime	A review to ensure that resources are being used effectively and payments made are bona fide and appropriate to ensure that costs are controlled.
Expenses	To ensure that only bona fide and business critical out of pocket expenses are incurred and claimed. This review will also cover any business or procurement cards used.

By: Neeta Major, Interim Head of Internal Audit  
 To: Governance and Audit Committee – 19 December 2012  
 Subject: **Effectiveness of Internal and External Audit Liaison**  
 Classification: Unrestricted

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

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## **FOR ASSURANCE**

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### **Introduction**

1. The requirement for Internal Audit and External audit to liaise in an effective way is recognised by professional guidance within both disciplines. Effective liaison can reduce the audit burden for finance and other front line staff. For this reason the Committee's Terms of Reference includes the responsibility for the Committee to annually assess the co-operation between Internal and External 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 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.
7. In addition this year it is our intention to undertake joint stakeholder planning meetings with the External Auditors. This will ensure that we have a coordinated approach to audit risk assessments used to inform our proposed audit plans.
8. In 2012/2013 Internal Audit is undertaking a number of core financial reviews. With the appointment of Grant Thornton as our new External Auditors we have been informed that there will be changes to External Audit's approach to the audit of the financial statements. At the time of writing this report, this approach had not been finalised. It has been agreed with Grant Thornton that as soon as the approach is determined, the proposed Internal Audit plan will be reviewed in light of any changes to reduce duplication and ensure that any financial systems assurance work is properly coordinated.
9. The key financial systems audits that Internal Audit are undertaking in quarter four of 2012/13 where there may be the possibility of joint working e.g. systems documentation or controls testing are as follows;
  - Accounts payable and BACS system
  - Treasury management
  - Pensions contributions
  - Pensions investment income
  - General ledger
10. In addition the work that the Internal Audit section completes to provide core assurance e.g. Corporate Governance, Risk Management, and performance management is utilised by the External Auditors to inform their risk assessment of the Council. For 2012/2013 the corporate governance review was performed in conjunction with the External Auditors.

## **Conclusion and next steps**

11. Liaison between Internal Audit and External Audit is in place, and there is reliance placed on the work of Internal Audit by the External Audit team where this is relevant.
12. Both Internal and External Audit are starting to consider their plans for the 2013/2014 year. The Interim Head of Internal Audit has agreed with Grant Thornton to seek synergy between the two audit plans once they have agreed their audit approach. This will be reflected in the plans presented for approval by the Committee in April next year.

## **Recommendations**

13. Members of the committee are asked to note this annual update on liaison arrangements between Internal and External Audit for assurance.

**Neeta Major (Ext 4664)**  
**Interim Head of Internal Audit**

By: Neeta Major – Interim Head of Internal Audit  
 To: Governance and Audit Committee - 19 December 2012  
 Subject: **ANTI-FRAUD AND CORRUPTION  
 PROGRESS REPORT**  
 Classification: Unrestricted

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**Summary:** This paper provides a summary of progress of anti-fraud and corruption activity as well as the outcome of investigations concluded since the last Governance and Audit Committee meeting in September 2012.

## **FOR ASSURANCE**

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### **Introduction and Background**

1. Within Kent County Council 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 paper supports the Committee in meeting this outcome.

#### *Protecting the Public Purse*

2. In November 2012 the Audit Commission published Protecting the Public Purse which is an annual publication that focuses on local government's progress in tackling fraud. The report identified more than 124,000 cases of fraud with a total value of £179m, which is a marginal (2-3%) increase on previous years. Housing and council tax benefit fraud accounted for more than half of the losses. Other significant areas of fraud relate to council tax discounts, procurement, abuse of position, payroll, expenses and pensions.
3. The Audit Commission made a number of recommendations including actively pursuing matches identified by the National Fraud Initiative, maintaining robust recruitment and internal controls and exploring partnership and funding arrangements in two-tier areas to incentivise district councils to investigate council tax discount fraud. The full report is available from [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

### **Anti-Fraud and Corruption Activity**

#### *Fraud Awareness*

4. We continue to highlight fraud risks across the Council via KMail and Kent Trust Web (for schools) and have provided a series of fraud awareness presentations to school finance staff, aspiring head teachers and Commercial Services. We have received very positive feedback and will continue to raise the level of fraud awareness across the Council. We believe that this increased fraud awareness activity is leading to a direct increase in the number of higher quality referrals.

### *National Fraud Initiative*

5. The NFI is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. In accordance with the Audit Commission's instructions, we have submitted seven data sets including payroll and creditors. The subsequent data matches will be made available to us in January 2013 for investigation.

### **Irregularities**

6. In April 2012 we carried forward twenty-one irregularities and since April we have recorded thirty new irregularities. Twenty six irregularities have been concluded and have been reported previously to G&A. Twenty five irregularities remain open which includes two from 2011/12. In addition there are a number of ongoing preliminary and supportive enquiries that may reveal further fraud/irregularities.
7. The investigations are becoming increasingly complex and are taking a significant amount of time to investigate, hence no completed investigations can be reported to this meeting. However many of the current cases are nearing completion and will be reported next quarter.
8. Internal Audit provided for 200 days of investigation activity for the entire 2012/13 Internal Audit Plan. To date we have undertaken 242 days of investigation activity.

### **Recommendations**

9. 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: 4694**