

GOVERNANCE AND AUDIT COMMITTEE

Friday, 3rd October, 2014

10.30 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a training session for Members of the Committee at 10.00 am entitled “Stepping Up to new Audit Committee Guidelines and Internal Audit Standards”





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Friday, 3rd October, 2014, at 10.30 am
Darent Room, Sessions House, County Hall,
Maidstone

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

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

Membership (15)

Conservative (8) Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman),
Mr J A Davies, Mr E E C Hotson, Mr A J King, MBE,
Mr S C Manion, Mr R A Marsh and Mr J E Scholes

UKIP (3) Mr H Birkby, Mr C P D Hoare and Mr B Neaves

Labour (2) Mr W Scobie and Mr D Smyth

Liberal Democrat (1): Mr R H Bird

Independents (1): Mr M E Whybrow

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. Declarations of Interest in items on the agenda for this meeting
4. Minutes - 24 July 2014 (Pages 7 - 14)
5. Committee Work and Member Development Programme (Pages 15 - 20)
6. Update on 2014/15 Budget Savings programme (Pages 21 - 24)
7. Facing the Challenge Transformation Programme governance arrangements (Pages 25 - 30)
8. Commercial Services Policies (Pages 31 - 36)
9. Treasury Management Update (Pages 37 - 46)
10. External Audit Annual Audit Letter 2013/14 (Pages 47 - 58)
11. External Audit Update (Pages 59 - 74)
12. Internal Audit Benchmarking results (Pages 75 - 82)
13. Internal Audit Progress Report (Pages 83 - 104)
14. Anti-Fraud and Corruption progress report (Pages 105 - 114)
15. 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

Thursday, 25 September 2014

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.

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TERMS OF REFERENCE

Governance and Audit Committee

15 Members

Conservative: 8; UKIP: 3; Labour: 2; Liberal Democrat: 1; Independent: 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 Thursday, 24 July 2014.

PRESENT: Mr R L H Long, TD (Chairman), Mr R H Bird, Mr J A Davies, Mr C P D Hoare, Mr E E C Hotson, Mr A J King, MBE, Mr S C Manion, Mr B Neaves, Mr C R Pearman (Substitute for Mr R J Parry), Mr J E Scholes, Mr W Scobie, Mr T L Shonk (Substitute for Mr H Birkby), Mr D Smyth and Mr M E Whybrow

ALSO PRESENT: Miss S J Carey

OFFICERS: Mr A Wood (Corporate Director of Finance and Procurement), Mr N Vickers (Head of Financial Services), Mrs C Head (Head of Financial Management), Miss E Feakins (Chief Accountant), Mr G Wild (Director of Governance and Law), Ms N Major (Head of Internal Audit), Mr P Rock (Counter Fraud Manager), Ms Y King (Schools Financial Services Manager), Mr M Scrivener (Corporate Risk Manager) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells and Ms E Olive from Grant Thornton UK LLP

UNRESTRICTED ITEMS

17. Membership
(Item 2)

The Committee noted the appointment of Mr E E C Hotson and Mr S C Manion in place of Mr P J Homewood and Mr P J Oakford.

18. Minutes - 30 April 2014
(Item 5)

RESOLVED that the Minutes of the meeting held on 30 April 2014 are correctly recorded and that they be signed by the Chairman.

19. Dates of meetings in 2015
(Item 6)

The Committee noted the following dates of meetings in 2015:-

Thursday, 29 January 2015;
Wednesday, 29 April 2015;
Thursday, 23 July 2015; and
Friday, 2 October 2015.

20. Committee Work and Member Development Programme

(Item 7)

(1) The Head of Internal Audit proposed an updated forward Committee Work and Member Development programme. She drew Members' attention to the CIPFA information tools contained in Appendices 2 and 3 of the report as these would be discussed at the next briefing session before the Committee's next meeting on 3 October 2014.

(2) The Committee noted that Members' briefing sessions on commissioning had been arranged to take place in early September. It was agreed that any additional requirements on this topic could be assessed after the September session.

(3) RESOLVED that:-

(a) approval be given to the proposed forward work programme and Member development programme to July 2015; and

(b) the evaluation tools recently published by CIPFA and contained at Appendices 2 and 3 of the report be noted.

21. External Audit Update July 2014

(Item 8)

(1) Mr Darren Wells from Grant Thornton LLP reported on progress on delivering their responsibilities for 2013/14 and also on emerging issues and developments.

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

22. External Audit Findings Report 2013/14

(Item 9)

(1) Mr Darren Wells from Grant Thornton UK LLP gave a report on the findings from the audit of the County Council's 2013/14 financial statements. This report included the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to the Committee in April 2014. It also included the results of the work undertaken to assess the Council's arrangements to secure value for money.

(2) Mr Wells drew the Committee's attention to the unadjusted misstatement (set out on page 16 of the Audit Findings Report) in respect of £37,266k in relation to spend on assets that had been revalued in 2013/14.

(3) The Committee accepted the assurance given by the Corporate Director of Finance and Procurement that the overall impact of not adjusting the misstatement would be nil, and that the accounting practice would be amended for the year 2014/15.

(4) RESOLVED that:-

(a) the adjustments to the accounts of the Council be noted as set out in the appended report from Grant Thornton LLP;

- (b) approval be given to the non-adjustment of the misstatement set out on page 16 of the appended report for the reasons set out in the report from Grant Thornton LLP by the Corporate Director of Finance and Procurement; and
- (c) agreement be given to the management action plan set out in Appendix A of the report from Grant Thornton LLP.

23. External Audit Pension Fund Audit Findings Report 2013/14
(Item 10)

(1) Mr Darren Wells from Grant Thornton LLP UK gave a report on the audit findings for the Kent Superannuation Fund. The report included the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to the Committee in April 2014.

(2) Mr J E Scholes reminded the Committee that he was the Chairman of Superannuation Fund Committee and expressed his thanks to all concerned in the production of the Pension Fund Financial Statements.

(3) RESOLVED that the findings in the report be noted.

24. External Audit 2013/14 Value for Money Report
(Item 11)

(1) Ms Liz Olive from Grant Thornton UK LLP reported the results of the work undertaken to assess the Council's arrangements to secure value for money. As part of the VFM conclusion, Grant Thornton had undertaken a review of the Council's financial resilience in 2013/14 covering four areas: key financial indicators, strategic financial planning, financial governance and financial control. It had concluded that the arrangements were sound and had given a "green light" in the four key risk areas, with all but two "amber light" sub-areas not receiving a "green light".

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

25. Schools Audit Annual Report
(Item 12)

(1) The Schools Financial Services Manager gave a summary of the Schools Financial Services compliance programme and other activities undertaken during 2013-14 to enable the Corporate Director of Finance and Procurement to certify that there was a system of audit for schools which gave adequate assurance over financial management standards in Kent maintained schools.

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

26. Internal Audit Annual Report

(Item 13)

(1) Mr C P D Hoare informed the Committee that he was the Director of a Community Interest Company. This was neither a Direct Pecuniary Interest nor an Other Significant Interest.

(2) The Head of Internal Audit summarised the content of the Internal Audit Annual Report, provided the opinion on the Council's system of internal control and provided comment on the performance of the Internal Audit section. She also explained that Internal Audit was now in its second year of self-assessment of conformance against the Public Sector Internal Audit Standards. Internal Audit was compliant with these standards with the exception of a couple of newer requirements which were now being progressed.

(3) The Committee requested that future Annual Reports should sub-divide the analysis of anti-fraud work between internal and external fraud.

(4) RESOLVED that:-

(a) the Internal Audit Report for 2013/14 be noted for assurance as set out in Appendix 1 to the report; and

(b) the key developments in relation to standards for Internal Audit be noted together with the plan to commission an independent review of conformance in 2015/16.

27. Draft Statement of Accounts 2013-14

(Item 14)

(1) The Corporate Director of Finance and Procurement and the Chief Accountant gave a report on the draft Statement of Accounts for 2013/14.

(2) The Committee thanked everyone in the Finance and Procurement section for the speed and quality of their work in bringing the accounts forward.

(3) RESOLVED that:-

(a) approval be given to the Statement of Accounts for 2013/14;

(b) approval be given to the Letters of Representation in respect of the Financial Statements for the Council and the Kent Superannuation Fund; and

(c) the recommendations made in the Annual Audit Findings Report be noted.

28. Treasury Management Annual Review 2013-14

(Item 15)

(1) The Head of Financial Services gave a summary report of Treasury Management activities in 2013/14.

(2) The Committee decided to recommend to the Council that it should agree the report.

(3) RESOLVED that approval be given to the Treasury Management Annual Review 2013/14 for submission to the County Council with a recommendation that it should be agreed.

29. Debt Management
(Item 16)

(1) The Head of Financial Services reported on the Council's debt position.

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

30. KCC Insurance Overview
(Item 17)

(1) The Head of Financial Services gave a summary of Insurance Activity in 2013/14.

(2) The Committee agreed that it would receive regular reports on the liability, indemnity and insurance aspects of the Council's Transformation Programme as well as a separate report on its governance and audit aspects.

(3) RESOLVED that:-

(a) the report on debt management in 2013/14 be noted for assurance; and

(b) regular reports be submitted to future meetings of the Committee on the liability, indemnity and insurance aspects of the Council's Transformation Programme as well as a separate report on its governance and audit aspects.

31. Corporate Risk Register
(Item 18)

(1) The Corporate Risk Manager presented the Corporate Risk register to the Committee together with an overview of the changes since it had last been presented in December 2013 and an outline of the ongoing process of monitoring and review. He drew the Committee's attention to two new risks; "Public Sector Network – Compliance with Code of Connection" and "Implications of the Care Act 2014".

(2) The Committee asked for future reports to give an indication of direction of travel, explaining the reasons for each particular risk rating being raised or lowered.

(3) RESOLVED that the assurance provided in relation to the development, maintenance and review of the Corporate Risk Register be noted.

32. Review of Anti-Fraud and Corruption Strategy

(Item 19)

- (1) The Counter Fraud Manager provided a summary of proposed amendments to the Council's Anti-Fraud and Corruption Strategy.
- (2) The Counter Fraud Manager confirmed that the Anti-Fraud and Corruption Strategy would be published on-line.
- (3) RESOLVED that approval be given to the revised Anti-Fraud and Corruption Strategy as set out in Appendix A to the report.

33. Anti-Fraud and Corruption Progress Report

(Item 20)

- (1) The Counter Fraud Manager provided a summary of progress of anti-fraud and corruption activity as well as the outcomes of investigations concluded since the last meeting of the Committee in April 2014.
- (2) RESOLVED that the progress of prevention and investigation of anti-fraud and corruption activity be noted.

34. Mr Darren Wells and Mrs Neeta Major

(Item 21)

- (1) The Chairman informed the Committee that Mr Darren Wells would cease to be the Council's external auditor before the next meeting of the Committee. He thanked Mr Wells on behalf of the Committee for his external audit work over the previous 8 years as a representative of firstly the Audit Commission and then Grant Thornton UK LLP.
- (2) The Chairman informed the Committee that this would be the last Committee at which Mrs Neeta Major would be present as the Head of Internal Audit. He expressed his personal gratitude for the advice and support she had given him and thanked her on behalf of the Committee for her invaluable work.

By: Richard Long, Chairman of Governance and Audit Committee
Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 3 October 2014

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

Classification: Unrestricted

Summary: This report provides an update on the forward Committee Work and Member Development programme and revised best practice guidance in relation to Audit Committees.

FOR DECISION

Introduction and background

1. In December 2013, CIPFA published updated best practice guidance on the function and operation of audit committees in Local Government. The guidance recommends that this Committee's work programme is designed to ensure that it can fulfil its terms of reference and that adequate arrangements are in place to support the Committee with relevant briefings and training.
2. This paper is a standing item on each agenda to allow Members to review the programme for the year ahead, and provide Members with the opportunity to identify any additional items that they would wish to include.

Current Work Programme

3. Appendix 1 shows the latest programme of work for the Committee, up to October 2015. 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. This doesn't preclude Members asking for additional items to be added during the course of the year.
4. The programme reflects requests made from previous Committee members for additional reports on specific items of interest.

Member Development Programme

5. For 2014-15, the following sessions were agreed for pre-meeting briefings, focusing on areas that are of specific relevance to this committee, the first of which was delivered prior to today's meeting.

Description	Timing
Audit Committee interactive update – CIPFA guidance and Public Sector Internal Audit Standards	October 2014 (delivered)
Local Audit Accountability Act 2014 – what are the key provisions and how will it change the way that Councils appoint external auditors?	January 2015
Annual Governance Statement – what assurance does it give us?	April 2015

6. In addition Members were recently provided with training on different commissioning models including alternative service delivery models which was a direct request at an earlier audit committee meeting. A further programme of financial training is currently being developed and will commence in the autumn. This will cover all the major areas of finance including the budget, financial information, treasury management, the pension fund and procurement.
7. Members may also ask for additional training if they require.

Recommendations

8. It is recommended that Members approve the forward Committee Work (**Appendix 1**) and Member Development programme.

Appendix 1 Committee work programme

Robert Patterson
Head of Internal Audit (x4664)

Category / Item	Owner	Oct-14	Jan -15	Apr-15	Jul - 15	Oct-15
Secretariat						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	RP	✓	✓	✓	✓	✓
Member Development Programme	RP	✓	✓	✓	✓	✓
Risk Management and Internal Control						
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			✓		
Corporate Governance						
Update on development of management guides	DW	If substantial changes to the approach or purpose of the management guides				
Annual review of Terms of Reference of G&A	RP		✓			
Debt Recovery	NV		✓		✓	
Facing the Challenge – governance update	JB	✓	✓	✓	✓	✓
Annual review of the Council's Code of Corporate Governance	GW	If substantial changes to Code				
Review of Bribery Act Policy	GW	If changes to Policy				
Commercial Services Policies	AW	✓				

Category / Item	Owner	Oct-14	Jan -15	Apr-15	Jul - 15	Oct-15
Internal Audit						
Internal Audit Progress Report	RP	✓	✓	✓		✓
Schools Audit Annual Report	RP				✓	
Internal Audit Annual Report (including review of Charter)	RP				✓	
Internal Audit Strategy and Annual Plan	RP			✓		
Internal Audit Benchmarking Report	RP	✓				✓
External Audit						
External Audit Update	RP	✓	✓	✓	✓	✓
External Audit Findings Report	RP				✓	
Pension Fund Audit Findings Report	RP				✓	
Value for Money Report (formerly Financial Resilience Report)	RP				✓	
External Audit Annual Audit Letter	RP	✓				
External Audit Certification of Claims and Returns Report	RP			✓		
Effectiveness of Internal and External Audit Liaison	RP		✓			
External Audit Plan	RP			✓		
External Audit Pension Fund Plan	RP			✓		
External Audit Fee letter	RP			✓		
External Audit Fraud, Law & Regulations & Going Concern Considerations	AW			✓		
Financial Reporting						
Statement of Accounts & Annual Governance Statement	AW				✓	
Revised Accounting Policies	CH			✓		
Review of Financial Regulations	EF			✓		
Fraud						

Category / Item	Owner	Oct-14	Jan -15	Apr-15	Jul - 15	Oct-15
Review of the Anti-fraud and anti-corruption Strategy	RP				✓	
Anti-Fraud and Corruption Progress Report	RP	✓	✓	✓	✓	✓

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

To: Governance and Audit Committee – 3 Oct 2014

Subject: Update on 2014-15 Budget Savings Programme

Classification: Unrestricted

Summary: This report asks Members to note the position

FOR ASSURANCE

1. Introduction

1.1 As reported in the paper that came to this committee in April, the savings target for the 2014-15 financial year is £81.4m. This is being continually monitored to ensure that savings targets are met or that alternatives are found.

2. Current Position

2.1 Progress against savings is best shown against the latest monitoring report for Q1 for 2014-15 which went to Cabinet on the 15 September. This forecasts a net overspend (excluding schools) of £5m as detailed below.

Directorate + = an overspend - = an underspend	Budget £'000	Net Variance (before mgmt action) £'000	Manage ment action already in place * £'000	Net Variance (after mgmt action) £'000
Education & Young People's Services	82,403.6	+1,290	-500	+790
Social Care, Health & Wellbeing - Specialist Children's Services	127,190.1	+5,220	-2,150	+3,070
Social Care, Health & Wellbeing - Asylum	280.0	+2,304	-	+2,304
Social Care, Health & Wellbeing - Special Operations	-	+609	-	+609
<i>Sub Total SCH&W - Specialist Children's Services</i>	<i>127,470.1</i>	<i>+8,133</i>	<i>-2,150</i>	<i>+5,983</i>
Social Care, Health & Wellbeing - Adults	342,987.4	+3,887	-3,700	+187

Social Care, Health & Wellbeing - Public Health	0.0	-	-	-
Growth, Environment & Transport	179,674.3	-1,439	-	-1,439
Strategic & Corporate Services	81,690.7	+703	-703	-
Financing Items	126,086.5	-147	-	-147
TOTAL (excl Schools)	940,312.6	+12,427	-7,053	+5,374
Committed roll forward			-	+12
Underlying position			-7,053	+5,386
<i>Schools (E&YP Directorate)</i>	-	+3,015	-	+3,015
TOTAL	959,297	+15,442	-2,150	+8,401

* Management action is where there is potential to reduce an overspend through the implementation of new plans/policies and strategies.

2.2 Delivering services within budget is getting increasingly difficult after several years of funding reductions, with yet more to come. This year's budget has less reliance on one-off savings and use of reserves meaning there are fewer 'in the bag' savings at this stage of the year. The restructure of service directorates and changes of senior staff adds further risk to delivery.

2.3 The very latest information suggests that some of the £7m management action shown in the table above is having a positive impact, although it is still too early to predict the precise impact on the bottom-line.

2.4 In relation to the savings PID's, the majority of the A-Z lines where savings are required are forecasting to break even or deliver an underspend. We will be looking to see whether this is due to delivering the savings plans identified or whether the savings have been made through alternative means giving rise to the possibility of greater savings being achieved. However, the main areas of concern are within the Social Care, Health and Wellbeing Directorate where the majority of the overspend is being forecast, this is after forecasting delivery of the transformation savings which are due to be realised in the second half of the year. The overspend is largely due to unachievable savings within Specialist Children's Services and the pressure in relation to Asylum, reflecting the impact of the recent offer from the Home Office now that we no longer receive a Gateway Grant.

2.5 Directors and Heads of Service within directorates own the savings and must deliver them (or an alternative). The Finance Business Partners are closely monitoring the progress and delivery of these savings. Any

concerns of non delivery will be raised with the Corporate Director and Cabinet Member.

3. Recommendation

3.1 Members are asked to note this report.

**Cath Head
Head of Financial Management
Ext: 1135**

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From: **Paul Carter, Leader of the Council
John Burr, Director of Transformation**

To: **Governance & Audit Committee – 3 October 2014**

Subject: **Facing the Challenge Transformation Programme
Governance Arrangements**

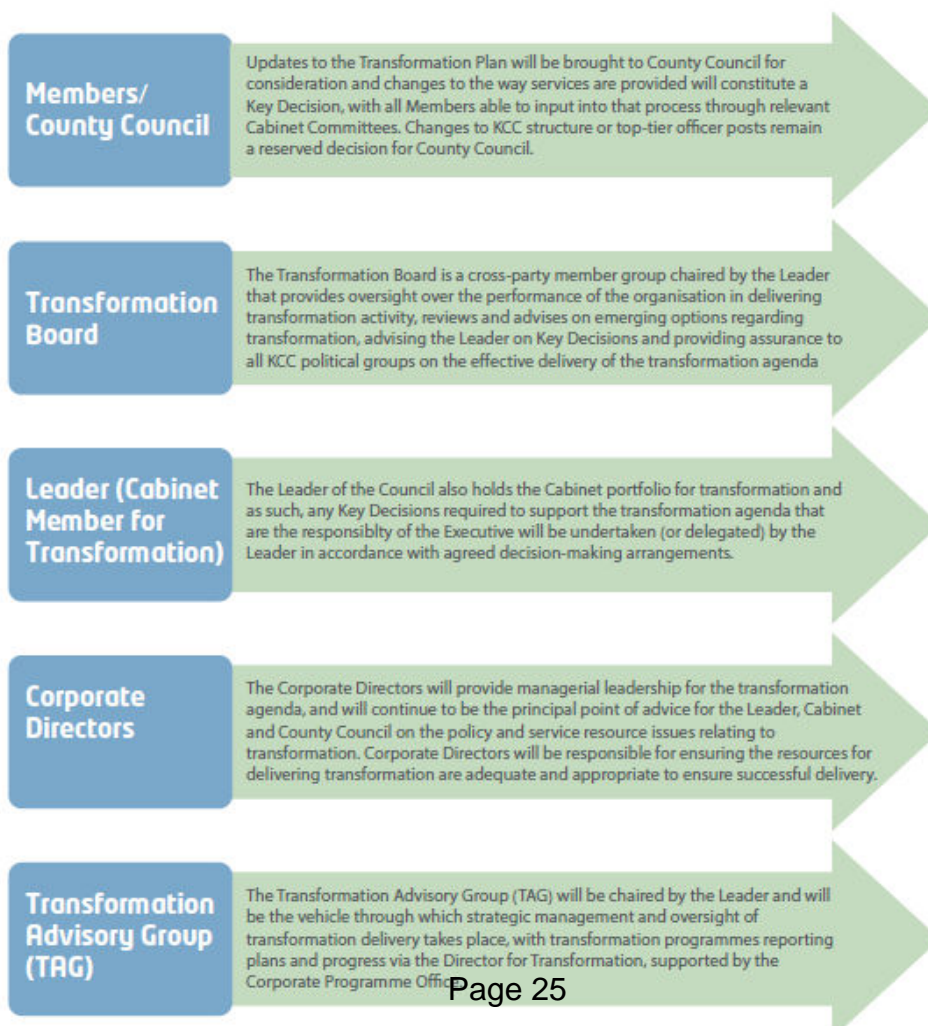
Classification: **Unrestricted**

Summary: This report seeks to present the current governance arrangements for the Facing the Challenge Transformation Programme and propose a governance framework for future companies in which KCC has an interest.

FOR ASSURANCE

1. Background

1.1 Facing the Challenge: *Delivering Better Outcomes* (approved by County Council in September 2013) identified five groups that will shape and drive the transformation agenda, ensuring that it is delivered effectively and efficiently, and meets the financial and policy objectives of the Council. The five groups include:



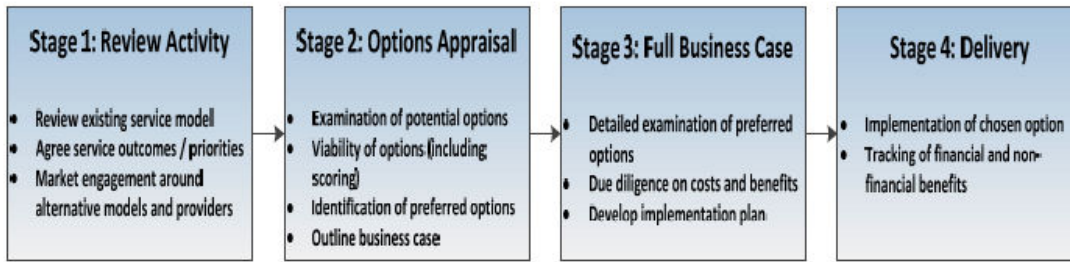
- 1.2 Throughout the Transformation Plan, individual change programmes may require Key Decisions given the financial or service implications of proposed transformation. These decisions will be taken through the existing decision-making process set out in KCC's Constitution, including through the relevant Cabinet Committees where possible. Once any necessary Key Decisions are made, they will be delivered by officers in line with the Executive Scheme of Delegations.
- 1.3 To support the Council manage change better Facing the Challenge: *Delivering Better Outcomes* proposed the creation of the Corporate Portfolio Office. The Corporate Portfolio Office's (CPO) role is to provide embedded assurance and report progress on the performance of the organisation in delivering the Transformation Plan. The CPO will undertake checkpoint reviews throughout the programme lifecycle, and as necessary escalate issues that are in exception and cannot be resolved within the programmes or portfolios themselves.
- 1.4 Facing the Challenge: *Delivering Better Outcomes* also outlined the Council's approach to meeting the financial challenges KCC faces through the establishment of the Market Engagement & Service Reviews. In Phase 1, the following services were identified to prioritise KCC's engagement with the market, where the markets were mature, there were opportunities for new delivery models and opportunities to maximise the Council's trading potential.
- Community Learning & Skills
 - Contact Centre
 - EduKent Services
 - External & Internal Communications
 - Finance
 - Human Resources
 - ICT
 - Kent Scientific Services
 - Legal Services
 - Libraries
 - Property
 - Residential Care Homes – Older People
- 1.5 In May 2014, the Facing the Challenge team identified the preferred option[s] for each of the 12 reviews included in Phase 1 for endorsement by County Council as presented in Facing the Challenge: *Phase 1 Service Review and Market Engagement Outturn Report*. The preferred options were as follows:
- **Community Learning & Skills review** - Local Authority Trading Company (LATCo)
 - **Contact Centre review** – *Joint Venture (JV) Partnership*
 - **EduKent Services review** – *JV Partnership and Charitable Trust for Improved Educational Outcomes*
 - **External & Internal Communications review** – *External Communications to improve, optimise and include the technical elements in a JV partnership. No change to the Internal Communications arrangements*

- **Finance, HR and ICT review** – *Integrated Service Offer run with a JV Partnership*
- **Kent Scientific Services review** – *More commercial internal model (currently on hold until the publication of the Elliot Review)*
- **Legal Services review** – *Alternative Business Structure (ABS) vehicle with a commercial partner*
- **Libraries, Registration & Archives (LRA) review** – *Kent Trust*
- **Property review** – *Local Authority Trading Company (LATCo)*
- **Residential Care Homes – Older People review** – *On hold and decision should wait until the Accommodation Strategy and implementation plans currently being prepared by the SCHW Commissioning team are complete*

2. Facing the Challenge Transformation Programme Governance

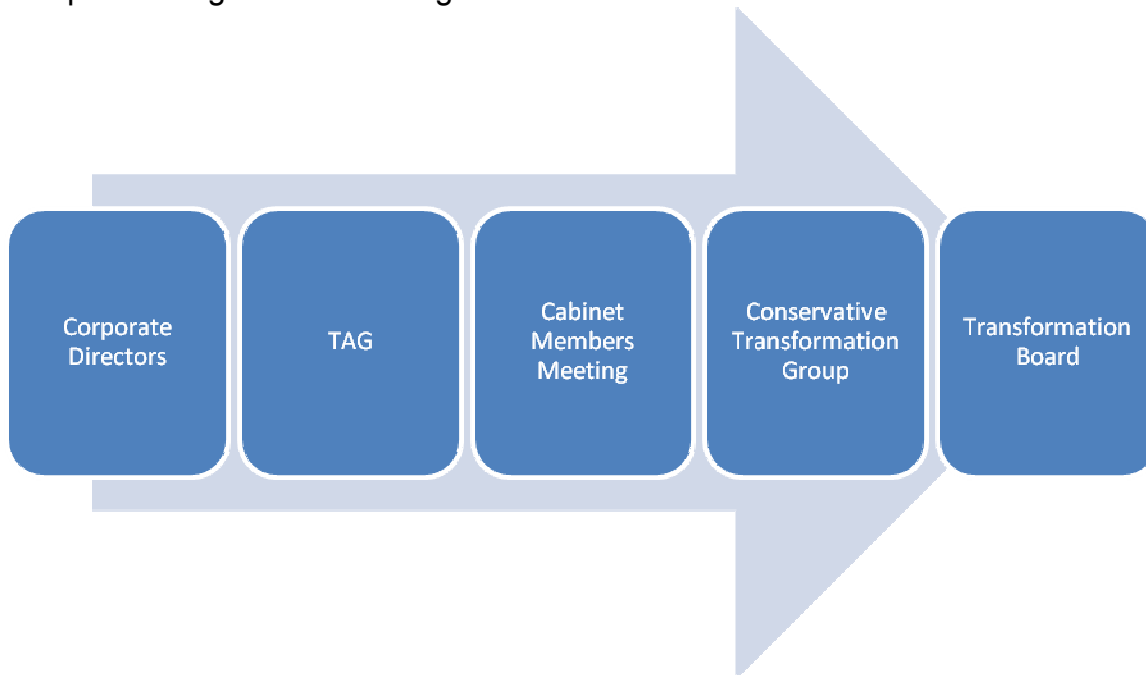
- 2.1 In October 2013, the CPO was established and tasked with establishing the four change portfolios identified in Facing the Challenge: *Delivering Better Outcomes*. Each change portfolio was assigned a Senior Responsible Owner (SRO) who is accountable for their respective portfolio to TAG and Transformation Board, including accountability for managing the risks to delivery.
- 2.2 The CPO currently report portfolio progress to TAG to provide assurance on benefits realisation on a monthly basis.
- 2.3 In compliance with the Council's approach to managing change through the programme lifecycle, the CPO established a Checkpoint Review process with particular focus on Checkpoint Reviews at the 'Formulation' and 'Initiation' stages. These provide assurance to the Leader and TAG that the business cases being developed run in line with KCC's strategic objectives and have clear scope and ambition, defined financial and non-financial benefits and identified milestones, indicators and resources.
- 2.4 Included in the Checkpoint Review process is a representative from the following teams:
- Finance
 - Internal Audit
 - Corporate Risk
 - Performance
 - Research and Evaluation
- 2.5 On 3 June 2014 it was agreed by TAG to introduce a separate Section 151 Report during the assurance of the Full Business Cases of the Market Engagement and Service Reviews. The Section 151 Report provides an independent view and assurance from the Section 151 officer on the Full Business Cases, in light that the decision relating to each of the reviews are hugely significant and could commit the Council to a long-term commitment of up to ten years and beyond. It was agreed the report would be embedded within the Checkpoint Review process during the assurance of the Full Business Cases.

2.6 In accordance with the agreed governance arrangements the Market Engagement and Service Reviews are going through series of assurance checks prior to progression to the next stage of the review process (as illustrated below).



2.7 The CPO have conducted Checkpoint Reviews of all the Phase 1 Full Business Cases and reported the key observations to TAG for consideration prior to endorsing the business cases to proceed to the next stage of the review process.

2.8 The Market Engagement & Service Reviews have additionally developed a comprehensive engagement process at the end of each stage of the review process for additional assurance as presented below. Each channel was required to either approve or endorse the review stage output before proceeding to the next stage.



2.9 Following the delivery of the Full Business Cases to TAG and in line with the ‘Protocol for companies in which KCC has an interest’, each review that recommends setting up a company will present their proposals to the Governance and Audit Trading Activities Sub-Committee for consideration. This will take place before any formal or Key Decision is made on setting up a company.

2.10 Following conversations between the Facing the Challenge team, Finance and Democratic Services it has been agreed that the first reports be presented to the Sub-Committee in January 2015.

2.11 In May 2014, the Facing the Challenge Risk Management Strategy was endorsed by TAG. The strategy identified that the Director of Transformation and Corporate Risk Manager, with support from the CPO are responsible for assuring arrangements for the collation and management of the overall Facing the Challenge risk register.

2.12 The strategy outlined that the CPO in conjunction with the Corporate Risk Team will:

- Assure that all major risks within portfolios are recorded, that the risks are clear, have appropriate Risk Owners and that adequate mitigation actions are identified.
- Challenge portfolios/ programmes on their progress against mitigation actions, escalating concerns where this impacts other programme deliverables or milestones.
- Discuss with portfolio / project managers and agree any risks that need to be escalated or shared within the wider transformation programme where they may impact delivery
- Include appropriate escalated risks on the overall *Facing the Challenge* risk register and monitor these closely on behalf of the Transformation Advisory Group.

2.13 Weekly updates are provided to TAG by the Director of Transformation and Facing the Challenge team where local risks to programme delivery are raised and mitigations agreed [if applicable].

3. Proposed Governance Arrangements for Future Companies in which KCC has an interest

3.1 Information on the proposed governance arrangements for future companies in which KCC has an interest is currently being drafted and will be shared at the next Governance & Audit Committee.

4. Proposals

4.1 To continue with the engagement process outlined in section 2.1 for the reviews included in Phase 2 of the Market Engagement & Service Reviews.

4.2 To report programme progress to Governance & Audit Committee at agreed timescales on programme governance, risks and controls.

5. Recommendation[s]

Recommendation[s]:

Members are recommended to:-

- note for assurance the governance arrangements adopted during the Market Engagement & Service Reviews.
- note that full Business Cases will be presented to the Governance & Audit Trading Activities Sub-Committee for consideration whenever it is proposed to set up a new company;
- agree to receive regular update reports on the progress of the Transformation Programme.

6. Contact details

- John Burr, Director of Transformation
- 03000 411626
- John.Burr@kent.gov.uk

By: Bryan Sweetland, Cabinet Member for Commercial & Traded Services
Mike Austerberry, Corporate Director of Growth, Environment & Transport

To: Governance and Audit Committee – 3 October 2014

Subject: **COMMERCIAL SERVICES POLICIES**

Classification: Unrestricted

Summary: This paper provides a summary of the key differences between KCC and the recently introduced Commercial Services policies and procedures.

FOR ASSURANCE

Introduction and Background

1. The protocol relating to companies in which KCC has an interest stipulates that 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. The following paper summarises the key differences (by notable exception) between KCC and the recently introduced Commercial Services policies.

Commercial Services Policies

2. Commercial Services has recently introduced the following policies:
 - Anti-Bribery and Hospitality
 - Expenses Policy
 - Corporate Charity Policy
 - Sponsorship Policy
 - Recruitment Policy
 - Declarations of Interest
 - Procurement Policy and Procedures
 - Whistleblowing Procedure
3. These policies have been developed and proposed by the company Executive Committee and formally approved by the Commercial Services Audit Committee in line with best practice within the commercial Sector. These policies only apply to those staff employed by either Commercial Services Kent Ltd or Commercial Services Trading Ltd.

4. Where possible a direct comparison has been made to KCC policies. In the absence of a direct comparator, the policies were compared to specific sections of relevant policies and procedures, such as the Kent Code. Differences between these policies and procedures and those of the Council, have been summarised by notable exception in the table shown in Appendix A for information. The Whistleblowing Procedure adopted by Commercial Services is very similar to KCC's procedure and there were no notable exceptions, hence it is not referred to in the table at Appendix A. Richard Martin, the Chair of Commercial Services Audit Committee has commented as follows *"To my mind the CS policies reflect what one would expect to see in a commercial organisation i.e. opportunities for socialising with customers and key suppliers should be encouraged (within appropriate limits) not just tolerated. This is quite different from what one would expect to see in a local authority, which has a very different and non-commercial purpose and whose employees therefore would not be expected to have the same degree of relationships with commercial organisations."*

Recommendations

5. Members are asked to note the contents of this report for assurance.

Appendices

Appendix A Table of key differences between Commercial Services and Kent County Council policies and procedures

Andy Wood, Corporate Director of Finance and Procurement
Ext. 4622

Table of key differences between Commercial Services and Kent County Council policies (by notable exception)

Policy	Commercial Services (CS)	Kent County Council (KCC)
Anti-Bribery and Hospitality Policy	<p>Allows the acceptance of some gifts and hospitality up to £75 without prior authorisation or recording on the Gifts and Hospitality register.</p> <p>However also stipulates clear examples of unacceptable forms of gifts & hospitality e.g.</p> <ul style="list-style-type: none"> • any cash or cash equivalent payments • frequent and regular acts of gifts and hospitality <p>Can accept payment of travel and accommodation by a third party for fact finding (e.g. potential acquisition target) or business review visits. Requires prior approval of a Director and is only permitted for justified business reason.</p> <p>No reference to use of loyalty cards – not relevant.</p> <p>CS will not enter into sponsorship agreements with any business which is in legal or financial conflict with the company or which connects the company with any political party or pressure group. However, personal conflicts are dealt with in the Declarations of Interest policy which requires employees to declare any financial or non-financial interests which may conflict with Commercial Services' interests</p>	<p>Not permitted to accept significant personal gifts, fees, loans, personal discounts or other rewards/advantages from contractors, clients or outside suppliers. Hospitality may be accepted if there is a genuine need to impart information, the function is part of the life of the community, or where KCC should be seen to be represented. All acceptances and refusals, except for minor articles such as diaries and calendars, must be recorded and authorised.</p> <p>KCC is required to meet the cost of any visits to inspect equipment etc. to avoid jeopardising the integrity of any subsequent purchasing decisions.</p> <p>The use of loyalty cards issued, for example, by supermarkets, petrol stations and high street stores is prohibited when purchasing goods or services on behalf of KCC.</p> <p>Where KCC wishes to sponsor an event or service, neither you, nor your partner, spouse, close friend or relative must benefit from such sponsorships. There should be no conflict of interest.</p>
Expenses Policy	Permits staff to claim for professional memberships e.g. Institute of Directors. Requires prior approval of a Director and is only permitted for justified	Membership of a professional body after completion of study is not reimbursed.

	business reason.	
Corporate Charitable policy	<p>Describes the governance arrangements for establishing partnerships with charities to support fund raising or increase the charity’s profile. The business is regularly asked for charitable contributions. This policy will formalise the charities supported, and seek to derive a business benefit through the association. Management of the process will include:</p> <ul style="list-style-type: none"> • a charity committee • commitment to support two charities per year • the selection process based on % of donations going to the good cause. 	KCC has no equivalent policy or references in existing procedures.
Sponsorship Policy	<p>Describes the governance arrangements for entering into corporate sponsorship arrangements with another organisation or its activities. This includes:</p> <ul style="list-style-type: none"> • A business case describing benefit and cost • Separate account codes • Return on investment • Risk analysis • Communication • A formal sponsorship agreement • Reviews of the initiative • Exec and Board sign off limits for spend <p>The Commercial Services Anti-Bribery Policy will apply to the corporate policy for Sponsorship and vice versa</p>	KCC has no equivalent policy or references in existing procedures

Recruitment Policy	Recruitment at senior level (£50K base level and/or a direct report into an executive member) must include a two interview process and be agreed with the HR Director.	The Council's Constitution states that Directors and Corporate Directors (KR16 and above) must be interviewed and appointed by the Personnel Committee or Member Panel (sub-committee), with the Corporate Director of Human Resources (or other Senior Manager as determined by the Committee or Panel) acting as adviser to the appointing body.
Declaration of Interest Policy	The Commercial Services Board (including NEDs) Executive Team and second tier managers must explicitly make a declaration on an annual basis even when no conflict exists. The DoI must be counter signed by the Chair of Audit Committee for Board members. The DoI for the Chair of Audit must be counter signed by the Chairman of the Board	<p>The Kent Code states that staff are required to declare annually to an appropriate senior manager any financial and non-financial interests or commitments, which may conflict with KCC's interests.</p> <p>Details of the salary and expenses, declarations of interest, and gifts and hospitality for Directors and Corporate Directors is available to view by the public at kent.gov.uk</p>
Procurement Policy and Procedures	<p>Guidance provided to staff on:</p> <ul style="list-style-type: none"> • Section 95 Business Unit Procurement Procedures • Teckal and Core Business Unit Procedures 	<p>In April 2014 the Governance and Audit Committee agreed to replace Spending the Council's Money and:</p> <ul style="list-style-type: none"> • provide a simplified interactive electronic version; • remove information on how to undertake procurements over £50k and instead refer services to the Strategic Sourcing & Procurement team; • provide clear guidance and documentation for procurements under £50k; and • provide separate guidance on contract management and specification writing.

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

To: Governance and Audit Committee – 3 October 2014

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

Summary: To report a summary of Treasury Management activity

FOR ASSURANCE

INTRODUCTION

1. This report covers Treasury Management activity for the 3 months to 30 June and developments in the period since up to the date of this report.

BACKGROUND

2. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides an additional quarterly update.
3. 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."
4. The Authority has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

MONTHLY PERFORMANCE REPORT

5. The Treasury and Investments Manager produce a monthly report for members of the Treasury Management Advisory Group. The June report is attached in Appendix 1.

INVESTMENT ACTIVITY

6. The Council's average investment balances to date have amounted to £420m, representing income received in advance of expenditure plus balances and reserves held. These balances are forecast to fall over the coming months reflecting the front loading in the financial year of Government grants.

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

COUNTERPARTY UPDATE

8. The Treasury Management Advisory Group met on 17 April and received presentations from Arlingclose on the current economic situation, from the Capital International Group on their global equity fund and from Grant Thornton on alternative opportunities for investment. After some discussion the Group agreed that a recommendation for diversifying the Council's investment portfolio should go to the June meeting of Cabinet. The reasons for diversification were:
 - a. All cash deposits are subject to "bail in" rule i.e. in the event of a solvency issue for an institution depositors potentially will take a loss. This reflects changes of Government policy in the UK, US and EU with sovereigns seeking an alternative to "bail out" by Government.
 - b. To reduce exposure to any one financial institution the counterparty limits have been reduced to a maximum of £40m resulting in capacity issues given the level of Cash held. The Royal Bank of Scotland / NatWest Bank has remained suspended from the approved counterparty list thus losing £40m of capacity.
 - c. Rates paid on bank deposits have fallen further while new asset classes, such as Covered Bonds, introduced in February, are providing attractive returns and at low risk.
 - d. Underlying this is the need for higher returns at potentially the same or lower level of risk to support the Council's budget.
9. On 2 June Cabinet approved the following changes to the Treasury Management Strategy Statement for 2014/15.
 - a. Increase the Svenska Handelsbanken limit to £40m.
 - b. Increase the allocation to Covered Bonds to £100m in aggregate with a £20m limit by institution.
 - c. Increase the maximum investment in the CCLA LAMIT Property Fund to £10m.
 - d. Introduce Corporate Bonds with a maximum individual limit of £5m.
 - e. Introduce Bond Funds with a maximum investment in any one fund of £5m within the investment portfolio aggregate limit of £75m
10. In August it was decided not to place any new deposits with Standard Chartered Bank as the result of concerns relating to their trading particularly in China and falling share price. To date no investments have been made in equity or bond funds reflecting the potential impact of interest rate rises.

STATEMENT OF DEPOSITS

11. A statement of deposits as at 29 August is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

BORROWING

12. 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.

RECOMMENDATION

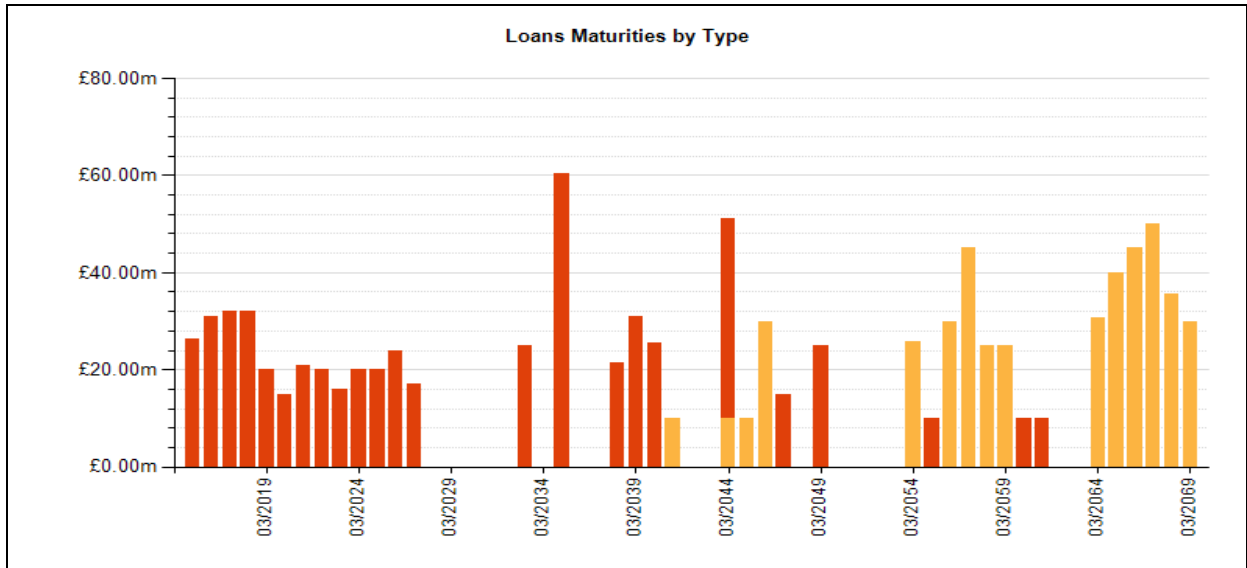
13. Members are asked to note this report for assurance.

Alison Mings
Treasury and Investments Manager
Ext: 7000 6294

Treasury Management Report for the month of June 2014

1. Long Term Borrowing

The Council’s strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles. The total amount of debt outstanding at the end of June remained at £1,010.27 million, with the maturity profile being as follows.



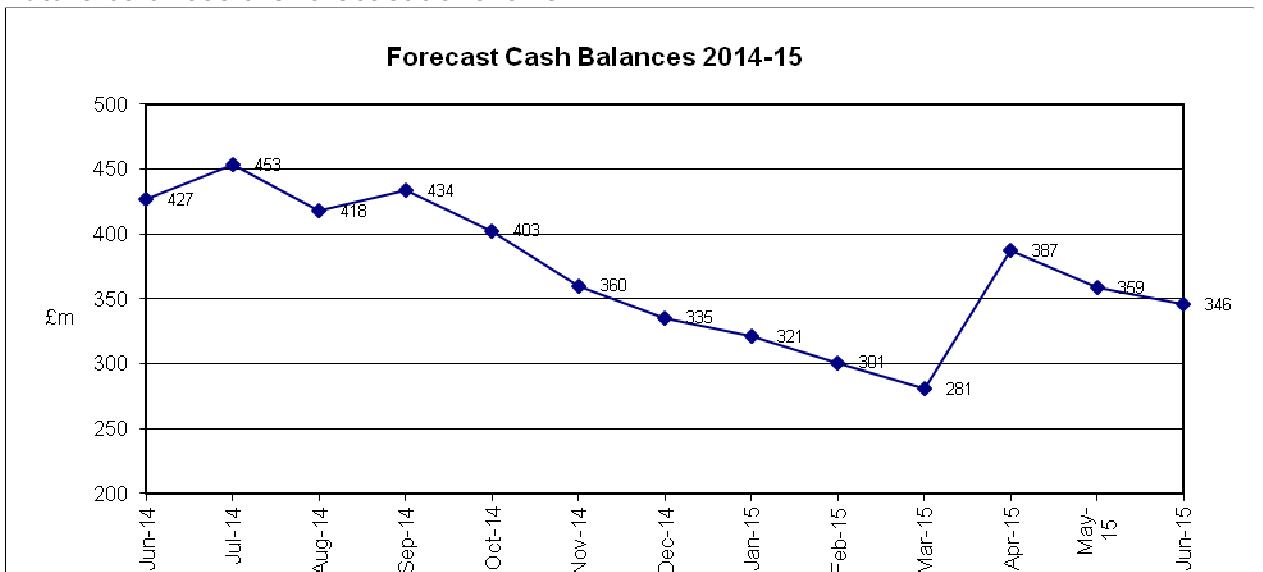
■ PWLB Maturity loans ■ Market LOBO Loans

Total external debt managed by KCC includes £41.405m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of the Further Education Funding Council (£1.76m) and Magistrates Courts (£0.745m).

2. Investments

2.1 Cash Balances

During June the total value of cash under management fell slightly to £426.9m. Future balances are forecast as follows:



2.2 Type of investment at month end

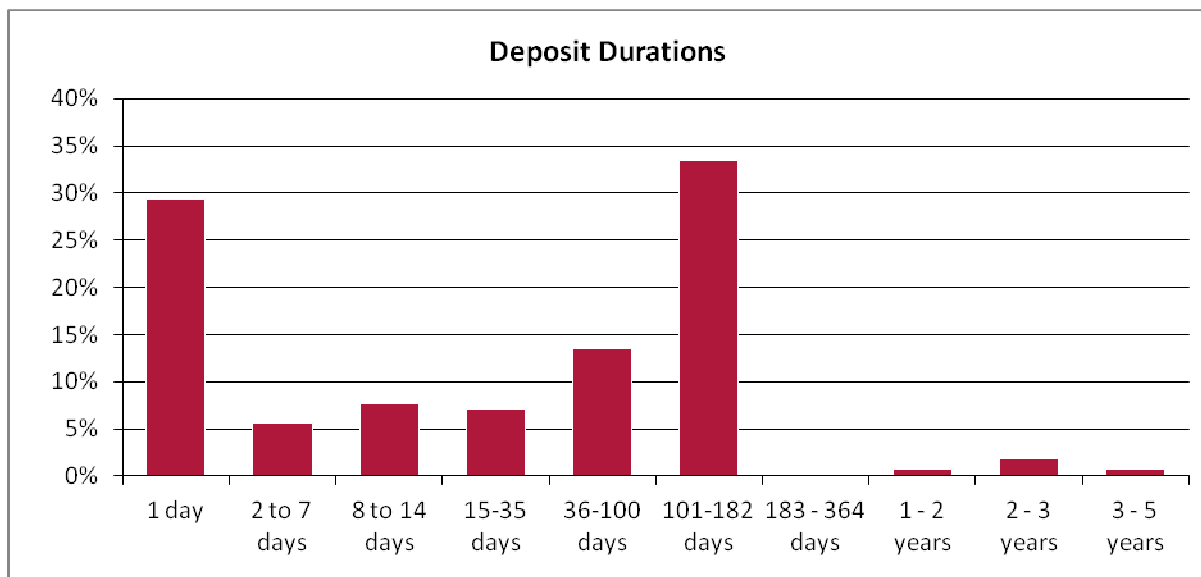
Type of Investment	Total	
Call Account	£116,150,000	27.89%
Certificate of Deposit	£80,000,000	19.21%
Fixed Deposit	£111,850,000	26.86%
Supranational Bond	£13,658,000	3.28%
Covered Bond	£13,280,000	3.19%
T-Bill	£59,512,500	14.29%
Icelandic Deposits (net)	£9,270,107	2.23%
Internally managed cash	£403,720,607	96.95%
External Investments	£ 10,000,000	2.40%
Equity	£ 2,681,260	0.64%
Total	£416,401,867	100.00%

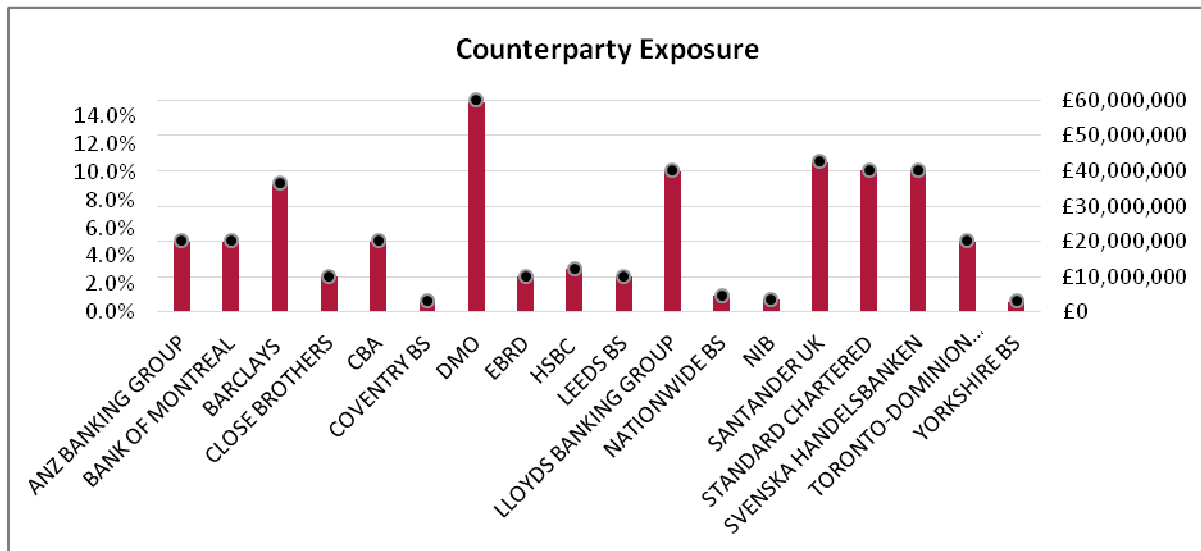
2.3 Internally managed cash

2.3.1 Average return on new deposits

The average rate of interest on new investments made during the month was 0.6184% vs 7 day LIBID 0.3485%.

2.3.2 Deposit maturity profile and counterparty exposure at month end





2.3.3 Credit Score matrix

	May 2014		June 2014	
	Credit Rating	Credit Risk Score	Credit Rating	Credit Risk Score
Value Weighted Average	AA-	4.16	AA-	4.13
Time Weighted Average	AA+	2.21	AA+	2.09

3. Financing Items

The continued low interest rate on savings and investments, partially offset by the re-phasing of last year's capital programme, means that we are forecasting a pressure of £0.400m at this stage.

Alison Mings, 10 July 2014

Investments as at 29 August 2014

1) Internally Managed Investments

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Call Account	Barclays Bank	£3,250,000	n/a	0.3
Call Account	Barclays FIBCA	£30,000,000	n/a	0.6
Certificate of Deposit	Barclays Bank	£5,000,000	14/08/2015	0.99
	Total Barclays	£38,250,000		
Fixed Deposit	Bank of Scotland	£5,000,000	08/05/2014	0.75
Fixed Deposit	Bank of Scotland	£5,000,000	22/07/2014	0.75
Fixed Deposit	Lloyds Bank	£5,000,000	22/10/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	06/11/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	19/11/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	31/12/2014	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	19/02/2015	0.7
Fixed Deposit	Lloyds Bank	£5,000,000	23/02/2015	0.7
	Total Lloyds Group	£40,000,000		
Call Account	Santander UK	£11,360,000	n/a	0.4
Certificate of Deposit	Standard Chartered	£10,000,000	07/01/2015	0.55
Certificate of Deposit	Standard Chartered	£8,000,000	08/09/2014	0.59
Certificate of Deposit	Standard Chartered	£10,000,000	02/10/2014	0.54
	Total Standard Chartered	£28,000,000		
Total UK Bank Deposits		£117,610,000		
Fixed Deposit	Nationwide Building Society	£4,700,000	20/11/2014	0.58
Fixed Deposit	Nationwide Building Society	£4,850,000	31/12/2014	0.64
Fixed Deposit	Nationwide Building Society	£6,400,000	21/01/2015	0.64
Fixed Deposit	Nationwide Building Society	£5,600,000	11/02/2015	0.64
	Total Nationwide BS	£21,550,000		
Total UK Building Society Deposits		£21,550,000		
Fixed Deposit	Commonwealth Bank of Australia	£7,000,000	31/10/2014	0.5
Fixed Deposit	Commonwealth Bank of Australia	£7,000,000	02/12/2014	0.5
	Total Commonwealth Bank of Australia	£14,000,000		
Fixed Deposit	Australia and New Zealand Banking Group	£10,000,000	08/12/2014	0.52
Fixed Deposit	Australia and New Zealand Banking Group	£10,000,000	07/01/2015	0.56
	Total Australia and New Zealand Banking Group	£20,000,000		
Total Australian Bank Deposits		£34,000,000		
Certificate of Deposit	Bank of Montreal	£10,000,000	31/10/2014	0.5

Certificate of Deposit	Bank of Montreal	£10,000,000	02/12/2014	0.5
	Total Bank of Montreal	£20,000,000		
Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Certificate of Deposit	Toronto Dominion Bank	£10,000,000	08/12/2014	0.52
Certificate of Deposit	Toronto Dominion Bank	£10,000,000	07/01/2015	0.56
	Total Toronto Dominion Bank	£20,000,000		
Total Canadian Bank Deposits		£40,000,000		
Call Account	Handelsbanken	£40,000,000	n/a	0.6
Total Swedish Bank Deposits		£40,000,000		
Treasury Bill	DMO	£4,992,652	08/09/2014	0.34
Treasury Bill	DMO	£4,992,327	15/09/2014	0.34
Treasury Bill	DMO	£4,990,817	06/10/2014	0.369
Treasury Bill	DMO	£4,990,544	13/10/2014	0.38
Treasury Bill	DMO	£4,992,188	13/10/2014	0.34
Treasury Bill	DMO	£4,990,472	20/10/2014	0.385
Treasury Bill	DMO	£4,991,587	10/11/2014	0.338
Treasury Bill	DMO	£4,504,949	24/11/2014	0.338
Treasury Bill	DMO	£4,987,193	29/12/2014	0.515
Treasury Bill	DMO	£4,987,689	26/01/2015	0.495
	Total UK Govt. Deposits	£49,420,419		
Fixed Rate Covered Bond	Bank of Scotland	£2,184,840	08/11/2016	1.29%
Fixed Rate Covered Bond	Bank of Scotland	£3,142,737	08/11/2016	1.31%
Fixed Rate Covered Bond	Coventry Building Society	£3,307,597	19/04/2018	1.92%
Fixed Rate Covered Bond	Leeds Building Society	£2,182,448	17/12/2018	2.02%
Floating Rate Covered Bond	Abbey National Treasury	£2,494,600	05/04/2017	0.78%
Floating Rate Covered Bond	Abbey National Treasury	£1,410,605	05/04/2017	0.72%
Floating Rate Covered Bond	Abbey National Treasury	£5,771,455	20/01/2017	0.82%
Floating Rate Covered Bond	Lloyds	£3,010,362	16/01/2017	0.81%
Floating Rate Covered Bond	National Australia Bank	£5,018,003	12/08/2016	0.65%
Floating Rate Covered Bond	Nationwide Building Society	£1,899,992	17/07/2017	0.76%
Floating Rate Covered Bond	Nationwide Building Society	£1,001,481	17/07/2017	0.75%
Floating Rate Covered Bond	Nationwide Building Society	£2,103,733	17/07/2017	0.70%
Floating Rate Covered Bond	Yorkshire Building Society	£3,069,161	23/03/2016	0.91%
Floating Rate Covered Bond	Yorkshire Building Society	£5,121,686	23/03/2016	0.91%
Floating Rate Covered Bond	Yorkshire Building Society	£2,192,863	12/04/2018	1.98%
Floating Rate Covered Bond	Yorkshire Building Society	£2,047,646	23/03/2016	0.91%
Fixed Rate	European Bank of	£10,027,936	15/12/2014	0.43%

Supranational Bond	Regeneration and Development			
Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Fixed Rate Supranational Bond	Nordic Investment Bank	£3,765,194	16/12/2014	0.40%
Total Covered Bonds		£59,752,338		
Instrument Type		Principal Amount		
<i>Total Icelandic Bank Deposits</i>		£12,416,710		
<i>Icelandic Deposits held in ESCROW (est GBP)</i>		-£3,146,603		
<i>Net Icelandic Deposits outstanding</i>		£9,270,107		
Total Internally Managed Investments		£371,602,863		

2) Externally Managed Investments

Investment Fund	Book cost	Market Value at 30 June 2014	Gross return for 6 months to 30 June 2014
CCLA*	£7,500,000	£7,481,000	1.21%
Pyrford	£5,000,000	£4,923,000	1.02%
Total Investment Funds		£12,404,000	
Equity	Book cost	Market Value at 30 June 2014	Projected annual return
Kent PFI (Holdings) Ltd	£2,681,260	£2,681,260	7.6%
Total Externally Managed Investments		£2,681,260	

3) Total Investments

Total Investments	£386,688,123
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By: John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement
 Andy Wood, Corporate Director of Finance and Procurement

To: Governance and Audit Committee – 3 October 2014

Subject: **External Audit - Annual Audit Letter 2013/14**

Classification: Unrestricted

Summary: The Annual Audit Letter provides a summary of the most important findings from the external audit work in respect of the 2013/14 audit year.

FOR ASSURANCE

Introduction

1. The Audit Commission's Code of Audit Practice requires that the external auditors prepare an Annual Audit Letter (the Letter) and issue it to the Council. The purpose of the Letter is to communicate to the Council and its external stakeholders, including members of the public, the key issues arising which the Engagement Lead considers should be brought to the attention of the Council. The Letter covers the work carried out by the external auditor in respect of the 2013/14 audit year.
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 2013/14 Audit Plan and includes:
 - The audit opinion and financial statements
 - Value for money
4. The Letter reaffirms the unqualified opinion on the 2013/14 financial statements, including the Kent Pension Fund, and the unqualified value for money conclusion.

Publication of the Letter

5. The Letter is addressed to all Members and the Engagement Lead requires that all Members receive a copy. There is also a statutory requirement to publish the Letter. The Audit Commission will publish all Letters on its website as part of its objective to make its findings easily accessible to everyone. The Council will also publish the Letter on its website.

Recommendations

6. 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.

Robert Patterson
Head of Internal Audit
Ext: 4664

The Annual Audit Letter for Kent County Council

Year ended 31 March 2014

22 September 2014

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Darren Wells

Engagement Lead

T 07880 456

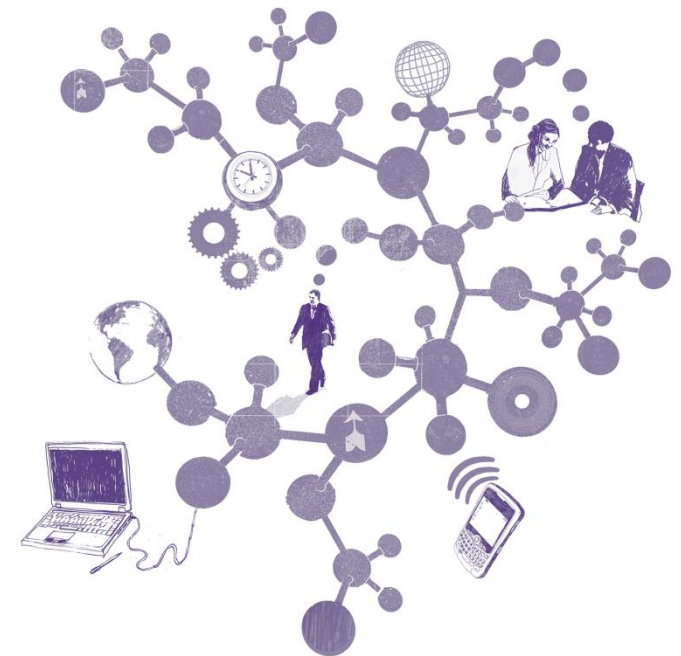
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- A Key issues and recommendations
- B Summary of reports and audit fees

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Kent County Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in April 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p>Financial statements audit (including audit opinion)</p> <p>Page 51</p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24 July 2014 to the Governance and Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"> • We did not identify any adjustments affecting the Council's reported financial position of net expenditure of £1,018,629k although we did report a number of adjustments that were made by officers to improve the presentation of the financial statements. We also reported that one adjustment was not accepted by officers and remained unadjusted in the final version of the statement of accounts presented to the Governance and Audit Committee meeting on 24 July. • The Council produced good quality draft financial statements supported by comprehensive working papers and officers responded positively to additional requests for evidence to enable us to carry out the majority of audit work in the three week onsite visit. <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 24 July 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2013/14 on 24 July 2014.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We are currently auditing the Council's pack. At this stage we propose to issue a certificate confirming the Council's pack was consistent with the audited financial statements.
Audit fee	Our fee for 2013/14 was £207,900, excluding VAT which was in line with our planned fee for the year and remains the same as the fee in the previous year, which was reduced by 40%. Further detail is included within appendix B.

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Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2013/14 audit.

No	Issue and recommendation	Priority	Management response/ responsible office/ due date
Page 53	<p>1. Capital programme outturn: There was significant slippage on the 2013/14 capital programme as the year end capital outturn is an underspend of £53.038m. This money has been re-phased into the 2014/15 financial year. The original capital budget for 2013/14 was £286m and the revised budget approved for the year was £256m. This underspend represents 21% of the planned spend for the year. The Council needs to ensure that the capital budget is realistic.</p> <p>Recommendation: Capital budgets need to be realistically set and closely monitored so there is a smaller underspend at year end.</p>	Medium	<p>Agreed. This has proven to be the holy grail but we continue to press for more realistic timings for projects from the service managers.</p> <p>Responsible office: Finance Due date: 31 March 2015</p>
	<p>2. Financial planning: The Council has set an ambitious transformation programme which started in 2013/14. It will transform how the Council provides its services. The Council needs to ensure that it realigns its financial planning throughout Facing the Challenge.</p> <p>Recommendation: The Council needs to ensure that financial planning remains aligned to Facing the Challenge and is responsive to the changing Council structure.</p>	High	<p>Agreed. This is a 'constant' and we remain committed to this.</p> <p>Responsible office: Finance Due date: On-going</p>
	<p>3. Unit cost information: The Council has an understanding of its unit costs in the demand led services and reports these on a quarterly basis to Cabinet. It has recognised that a wider understanding across the Council is required alongside Facing the Challenge transformation.</p> <p>Recommendation: The Council needs to ensure that all officers responsible for budget monitoring are aware of the unit costs.</p>	Medium	<p>Agreed. This will have increasing importance and as a first step we are introducing intensive commercial expertise training for finance staff so they can help service managers look at their budgets.</p> <p>Responsible office: Finance Due date: 31 March 2015</p>

Appendix A: Key issues and recommendations (continued)

No	Issue and recommendation	Priority	Management response/ responsible office/ due date
4.	<p>Project Initiation Document (PID) process: the Council re-introduced the PID savings process for the 2014/15 budget. For all projects over £200,000 the responsible directorate/ manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. The PIDs were due for completion by 1 May but at the end of June 2014 the central finance team monitoring returns had not received a PID for all savings. There was a gap of £7m mainly in respect of waste and children's savings. The outstanding PIDs were being chased by the Business Partners who are responsible for ensuring these are completed in a timely manner by the directorate.</p> <p>Recommendation: The Council should ensure that PIDs are fully completed before the start of the financial year to ensure there is no slippage in the total deliverable in the year.</p>	High	<p>Agreed. We have reviewed the PID template ready for 2015/16 and beyond for completion before April 2015.</p> <p>Responsible office: Finance Due date: February 2015</p>
5.	<p>Restructuring: The Council has undertaken significant restructuring over the past few years and this has led to changes in officers undertaking roles. As the Council implements Facing the Challenge, the changes are likely to increase. Our accounts audit identified a small number of controls and procedures that were not being undertaken as they should be during 2013/14.</p> <p>Recommendation: The Council needs to ensure that where posts are removed or restructured all tasks undertaken by that role are captured.</p>	Medium	<p>Agreed.</p> <p>Responsible office: Council wide Due date: On-going</p>
6.	<p>Foreword to the Accounts: The Foreword to the 2013/14 Statement of Accounts does not fully explain the changes to the Council in the financial year. It should tell the Council's story and be a standalone document form the Accounts.</p> <p>Recommendation: The Council should enhance the Explanatory Foreword to reflect the changes to the Council and accounting treatments in the financial year.</p>	High	<p>Agreed – the foreword will be reviewed and enhanced.</p> <p>Responsible office: Finance Due date: May 2015</p>

Appendix A: Key issues and recommendations (continued)

No	Issue and recommendation	Priority	Management response/ responsible office/ due date
7.	<p>Property, Plant and Equipment valuation: The Code of Practice requires councils to value all assets within an asset class simultaneously as at the 31 March. The Council did not follow this approach in 2013/14. However, it has demonstrated that this would not result in a material misstatement to the value of property, plant and equipment at the year end and therefore has not impacted on the values reported in the 2013/14 Statement of Accounts.</p> <p>Recommendation: The Council should update its rolling programme of asset valuations to ensure that all assets within a class are valued simultaneously.</p>	High	<p>There has been no change to the Code and the Code states “a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date”. We believe that we conform to this. However, we will review the tranches that we value on an annual basis and will ensure that the assets not revalued are not materially different at the balance sheet date.</p> <p>Responsible office: Finance Due date: 31 March 2015</p>

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Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	207,900	207,900
Grant certification fee	4,700	0
Objection work in relating to 12/13	0	1,695
Total fees	212,600	209,595

Grant certification

The Audit Commission has removed the Teachers' Pension Return from the list of grants covered by the certification arrangements. Therefore, the fee for grant certification in 2013/14 has not been charged as we are not auditing the return under the Code of Audit Practice arrangements.

Objection work relating to 2012/13

We undertook an investigation in the year into an objection made in respect of the 2012/13 financial statements. Upon conclusion of our work, we certified the closure of the 2012/13 financial statements in July 2014.

Fees for other services

Service	Fees £
Certification of Regional Growth Fund and TIGER 2013 claims	6,500
Certification of Initial Teacher Training 2012/13 claim	3,500
Review of residential price increases	7,220

Reports issued

Report	Date issued
Audit Plan	30 April 2014
Audit Findings Report	24 July 2014
Value for Money Report	24 July 2014
Annual Audit Letter	22 September 2014



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

To: Governance and Audit Committee – 3 October 2014

Subject: **External Audit Update – October 2014**

Classification: Unrestricted

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

FOR ASSURANCE

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:
 - Progress on the planned audits for 2013/14
 - Emerging issues and developments

Recommendation

3. Members are asked to note the report for assurance.

Robert Patterson
Head of Internal Audit
Ext: 4664

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Governance and Audit Committee Update for Kent County Council

Year ended 31 March 2014

September 2014

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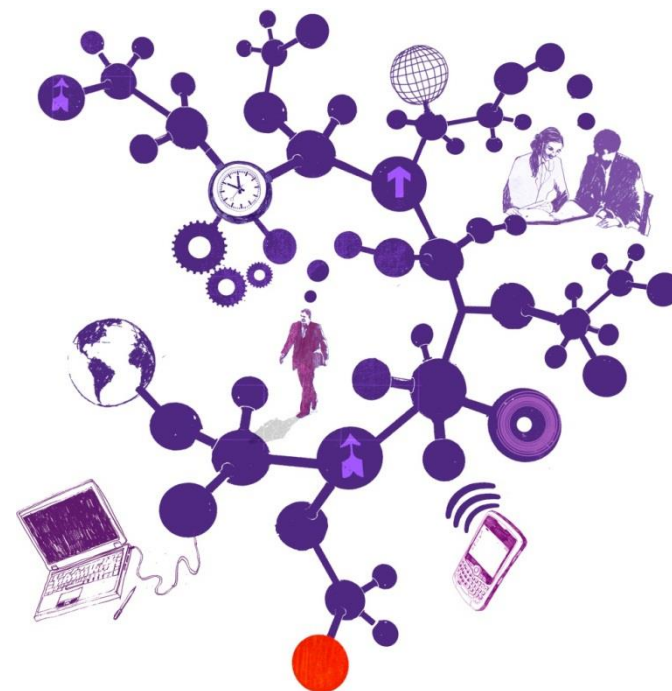
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 15 September 2014

Work	Planned date	Complete?	Comments
<p>Overview:</p> <p>We have substantially completed the 2013/14 audit as reported to the last meeting of the Audit and Governance Committee. The only remaining items to complete before issuing the audit certificate are: review of the pension fund annual report; completion of whole of government accounts return; and following up contact made by a local government elector to determine if there are any issues we need to consider as part of the 2013/14 audit year.</p> <p>Looking ahead to the 2014/15 audit, we are pleased to introduce Paul Hughes as your new engagement lead. Paul has 20 years' public sector audit experience and has worked with a wide variety of English local government and NHS bodies. He is currently engagement lead at LB Barnet and his previous clients include Manchester City Council and Leeds City Council. Paul is Grant Thornton's Public Sector Governance Lead and is responsible for producing the firm's national reports on corporate governance in local government and the NHS.</p> <p>Paul and Liz look forward to working with the Council over the next few years.</p>			
<p>2013-14 Audit Fee Letter We prepare a fee letter annually setting out the audit and grants certification work fee for the year.</p>	<p>March 2013</p>	<p>Yes</p>	<p>We presented the fee letter to this committee in April 2013.</p>
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	<p>April 2014</p>	<p>Yes</p>	<p>We agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts and presented them to the committee in April.</p>

Progress at 15 September 2014

Work	Planned date	Complete?	Comments
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January and April 2014	Yes	<p>We undertook early substantive testing to reduce the pressure on officers and audit at the accounts visit.</p> <p>We held monthly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There were no issues arising that impacted on our audit opinion.</p>
<p>2013-14 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts. 	June - July 2014	Yes	<p>We had monthly meetings with the Head of Financial Management and Chief Accountant during the year.</p> <p>We received the draft accounts on 13 June 2014 and undertook a three week audit visit from 16 June. We presented the Audit Findings Report to you at the July committee meeting.</p> <p>We issued an unqualified audit opinion on the Council's and Pension Fund accounts on 24 July 2014.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013-14 VfM conclusion is based on the reporting criteria specified by the Audit Commission.</p> <p>Our review focused on arrangements relating to financial governance, strategic financial planning and financial control.</p>	June - July 2014	Yes	<p>We set out the specific areas we planned to review in our 2013/14 Audit Plan. We undertook the audit work in June and July and reported our VfM findings against the specific risks in the Audit Findings Report. We issued a separate detailed VfM Report setting out our findings from the financial resilience review to you in July 2014.</p> <p>We issued an unqualified VfM Conclusion on 24 July 2014.</p>

Progress at 15 September 2014

Work	Planned date	Complete?	Comments
Whole of Government Accounts (WGA) We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.	September 2014	No	We are currently planning the WGA audit and will complete the testing and certification by the 3 October 2014 deadline.
Other activity undertaken			
Alternative Delivery Models Our Head of Real Estates and Assets, Chris Shepherd, from our Government and Infrastructure Advisory team, facilitated a workshop in August 2014 for officers to understand a range of issues associated with establishing Alternative Delivery Models. The event helped officers to understand the different options available to them for delivering services in new ways in line with Facing the Challenge.			
Non-audit work - Social Care price increases review Our LG advisory team undertook a data quality review and validation of the costs of residential care based on provider statements received during the 2013/14 year. The review ensured the Council had an understanding of the validity of the costs and price increases.			
LG networking event We are currently planning the second LG Audit Committee Chair and Vice-Chair networking event in Kent and will send out invitations to members shortly. The event will be held in the autumn.			

Code changes – have your say

Accounting and audit issues

At the end of July, CIPFA/LASAAC released the [2015/16 Code of Practice on Local Authority Accounting in the United Kingdom](#) (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- Changes to UK GAAP particularly relating to Heritage Assets
- Other minor and drafting amendments.

The consultation closes on Friday 10 October 2014.

Challenge questions

- Has the finance team reviewed the proposed amendments and assessed the potential impact?
- Has the Council considered whether it wishes to respond to the consultation?

LAAP Bulletins

CIPFA have also issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Challenge questions

- Has your finance team reviewed the guidance and assessed the potential impact for your authority?
- Has the Council started to implement a project plan for accounting for transport infrastructure assets?

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' was published in September 2014.

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assess the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Engagement Manager.

Anti - fraud and corruption update

Grant Thornton

Key current issues include:

Corruption risk - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that audit committees were unable to fulfil the function of reducing risks in many authorities.

Non-benefits fraud - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your Engagement Manager.

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Challenge question

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

The National Fraud Initiative

Local government guidance

On 12 June 2014 the Audit Commission released its national report, **The National Fraud Initiative (NFI): National Report (June 2014)** highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

Challenge question

- Are members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?



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By: Robert Patterson – Head of Internal Audit
 To: Governance and Audit Committee – 3 October 2014
 Subject: **INTERNAL AUDIT BENCH MARKING RESULTS**
 Classification: Unrestricted

Summary: This report summarises the 2013/14 Internal Audit Benchmarking Results.

FOR DECISION

Introduction

1. Internal Audit is a member of the CIPFA Audit Benchmarking Club. Through this club, information about Internal Audit's costs and productivity is compared against other county councils. We also compare our costs and productivity to the previous years to establish a direction of travel and improvement or if there are potential areas where we need to improve.
2. As a reminder, benchmarking is the start of an analytical process, not an end.
3. The number of county councils who participated in the 2013/2014 benchmarking exercise was nine including Kent. This is still a significant decline compared to 2009/10 when 21 county councils participated. Surrey, one of the larger comparator authorities has not participated again this year.
4. Many of the counties are significantly smaller than Kent County Council and the reduction in participants and the comparability of results of this survey as a measure of effectiveness going forward makes it less useful than in the past. However, at the September 2013 Audit Committee it was agreed that Internal Audit should continue to participate whilst continuing to engage in discussions at the County Council Area Network (CCAN) to see if there would be an opportunity to set up an alternative benchmarking club.
5. The former Head of Internal Audit has engaged in these discussions over the previous year. Indeed over the course of the year CIPFA and CCAN were in discussions to reduce the subscription rate if a large proportion of CCAN members (19) joined. Unfortunately there was insufficient appetite across member authorities despite the current financial climate and therefore this offer was rejected.

6. The view of several Counties is that the cost/resource of collecting the data outweighs the benefit. Also there is a view shared by several authorities that meaningful comparison is becoming increasingly difficult in Internal Audit due to different priorities and approaches.
7. It is apparent that some comparisons are distorted by the way in which authorities treat different costs, their differing risk profiles and the approach adopted to fraud, IT and compliance. Kent's Internal Audit data is fully automated and therefore we do not find participation in the annual exercise as onerous as other authorities. Also in 2013-14 the top level analysis has been useful when reviewing the value for money of our service in comparison to private sector providers.
8. The view of the majority of Counties is unfortunate and whilst we continued to contribute to the debate, in the interim we will continue to engage in discussions with CIPFA on making the results more meaningful.
9. To assist Members understand the context of the comparator group, Appendix A details the population and gross turnover of each of the comparator authorities.

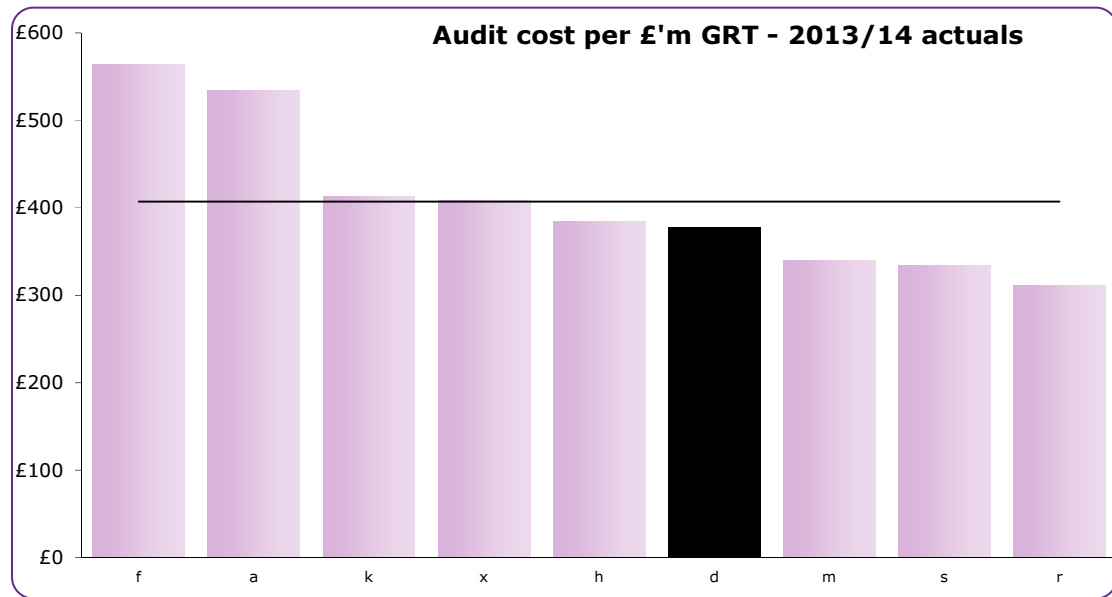
Headlines

10. Table 1 below provides the main headlines from the benchmarking exercise.

Table 1: Summary of 2013 - 2014 position
(The figures in brackets shows data for 2012/13).

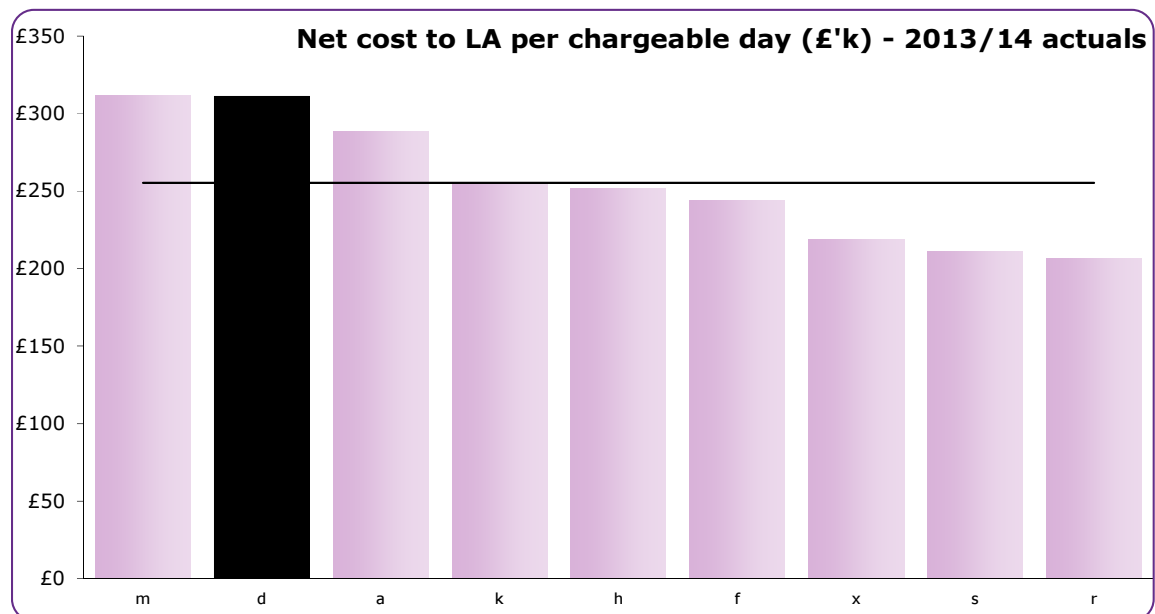
	Kent	Average
Cost per £'m	378 (371)	407 (537)
Cost per auditor (including on-costs and allocation of overheads) £'k	51 (51)	49 (46)
Chargeable days per auditor	163 (164)	173 (169)
Cost per chargeable day £	311 (312)	283 (278)

Comparative spend on audit

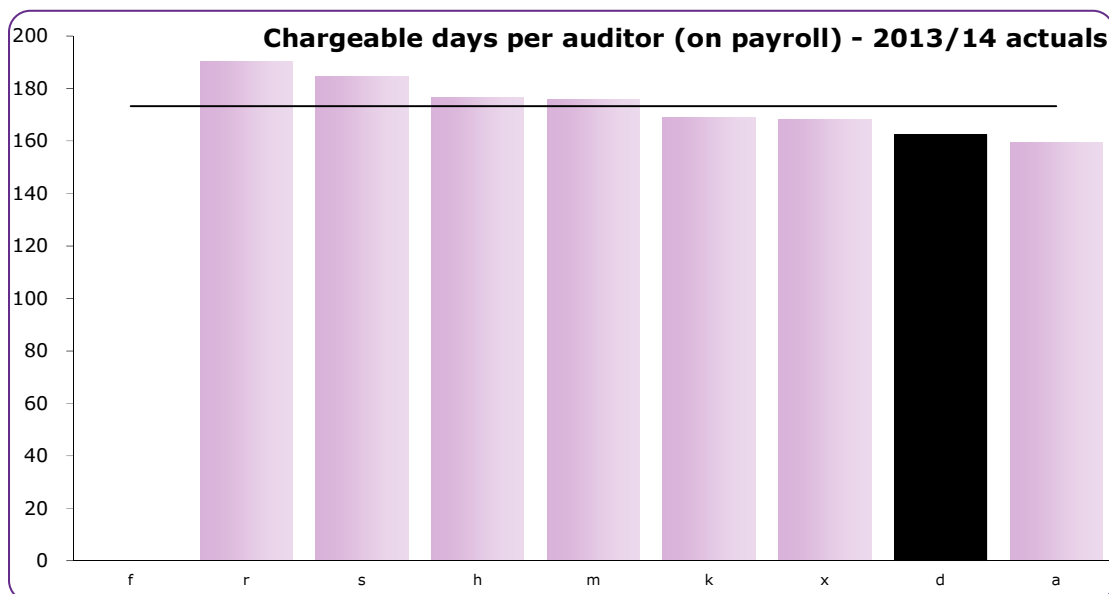
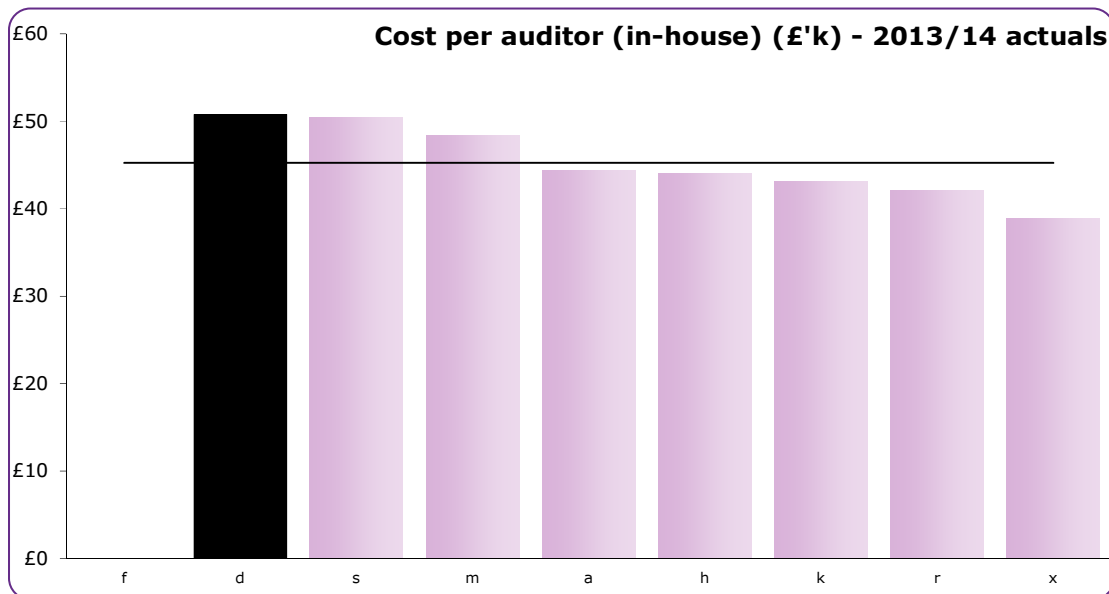


11. Kent County Council continues to spend well below average on its audit service per £m gross turnover, (shown in black shade) although it has increased slightly since 2012/13. This is consistent with previous years' results and to a degree may reflect that Kent's Internal Audit does not carry out school audits (that is undertaken by Internal Audit in some other County areas). In Kent, the Schools Compliance team within Finance undertake these.

Productivity



12. Our cost per chargeable day has fallen slightly this year to £311 (from £312 in 2012/13) and a decrease from £351 in 2011/12 which included significant costs associated with redundancy.
13. As in previous years costs per chargeable day remain higher than average. This can be explained by further analysing this metric.
14. The cost per chargeable day is affected by two variables – the **costs per auditor** (including pay, on costs and overheads) and the **chargeable days per auditor** shown in the next two graphs:



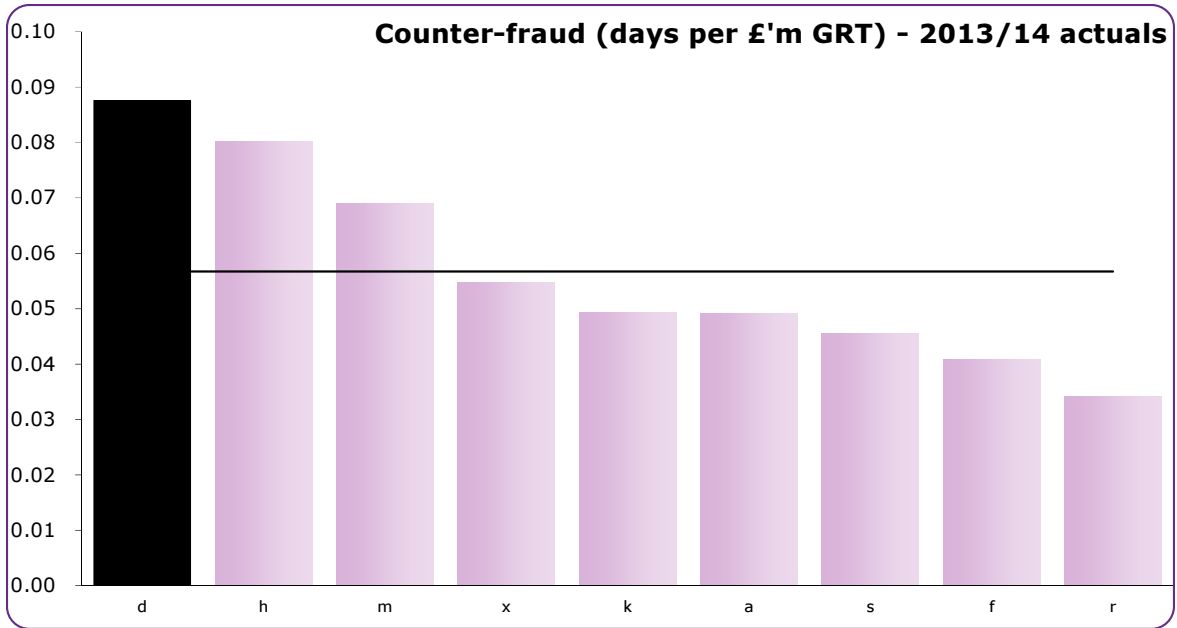
15. This analysis confirms that the cause of the higher than average net cost per chargeable day is the result of both of these metrics i.e. a

slightly higher than average cost per auditor and a slightly lower than average number of chargeable days per auditor.

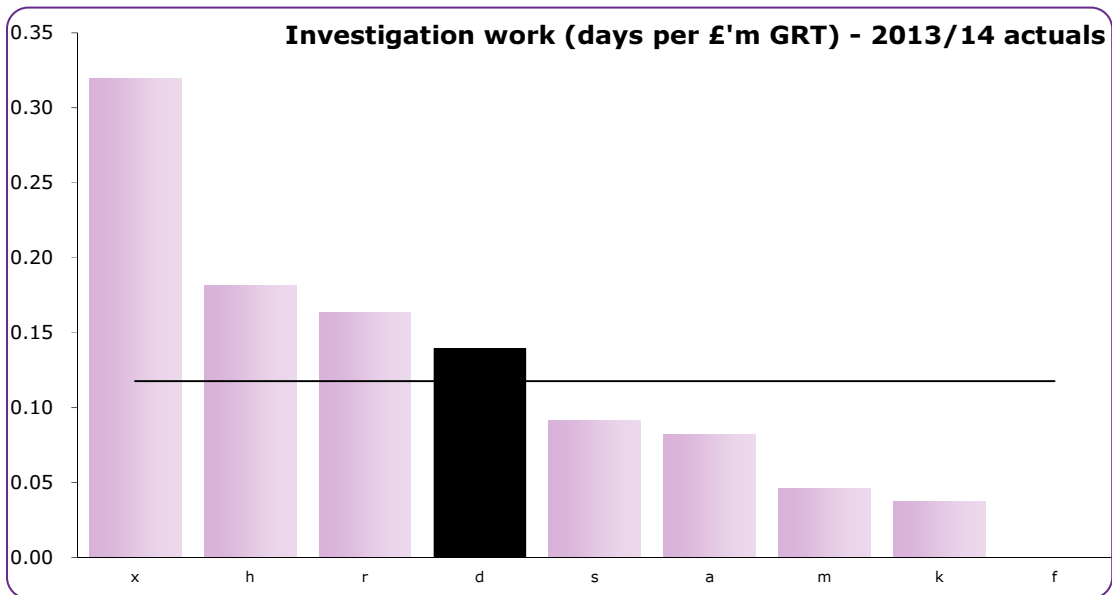
16. The cost per auditor is slightly higher than average (£51k - which is the same as the previous year vs average £45k – which is slightly less than the previous year). This reflects the buoyant audit market in Kent due to its proximity to London and our continued emphasis on maintaining a mix of qualified accountants and/or members of the Chartered Institute of Internal Auditors.
17. The chargeable days per auditor remains lower than average (163 days compared to an average of 173) due to the number of new recruits to the section who required induction, in house training, as well as internal audit trainees studying towards a professional qualification. There were also two secondments during 2013/14 as well as one member of staff who was terminally ill.
18. It is useful to note that the number of days “lost” to non audit and assurance work is 15% which conforms to sector averages. Non chargeable time relates to bank holidays, leave, training, sickness, administration, team meetings and other tasks not directly related to specific audit work. This time is closely monitored on a weekly basis by Internal Audit management to ensure that all team members maximise time spent on actual audit and assurance related work.

Counter fraud work and investigations

19. Time spent on counter fraud work per gross turnover is higher than any of the other comparator authorities, (0.09 days vs the average of 0.06 (see the graph below)). This reflects a deliberate strategy to prevent and detect fraud and error and to thoroughly investigate allegations of fraud and corruption.
20. The appointment of a Senior Counter Fraud Officer and Auditor (fraud) to support the Counter Fraud Manager has enabled the section to provide advice and information for specific processes that are at risk of fraud and/or error for example direct payments. General advice and information as well as fraud awareness training has been provided to a number of KCC staff including schools.
21. During the latter part of 2013/14 the Counter Fraud team has also worked in collaboration with Kent’s district councils in developing a Memorandum of Understanding to enhance the districts’ work in tackling fraud and error in the council tax system. The ultimate aim is to reduce fraud and error and also to increase the council tax yield for KCC.



22. The days spent on investigations is slightly higher than average 0.14 per gross turnover vs 0.12 (although one of the comparator authorities did not provide this data) and is higher than the days spent on counter fraud work. This is expected as fraud investigations can be resource intensive. As well as the actual investigation, time is taken to liaise with the police (where relevant), to present the results of investigations to disciplinary hearings, and to write reports with recommendations to help prevent a similar fraud and/or error.



Cost of participating

23. The cost of participating in the CIPFA benchmarking exercise has risen to £660 for 2013-14 (£600 - 2012-2013) together with the costs of collation, submission and review. However there are no further costs

of collection of data as Internal Audit routinely captures all the necessary data as part of its own performance management.

Recommendations

16. Members are asked to note the content of this report in relation to 2013-14.

Robert Patterson
Head of Internal Audit
Ext: 4664
3 October 2014

	Gross Turnover (£m) ¹	Population '000 ²
Essex	1,870	1,413
Leicestershire	743	648
Lincolnshire	1,096	703
Kent	2,352	1,428
Norfolk	1,399	862
Nottinghamshire	1,097	780
Somerset	719	525
Suffolk	1,049	720
Hertfordshire	1,637	1,108

¹ Per CIPFA benchmarking statistics

² Per Office National Statistics

By: Bob Patterson – Head of Internal Audit
To: Governance and Audit Committee – 3rd October 2014
Subject: **Internal Audit Progress Report**
Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity for the 2014/15 financial year to date.

FOR ASSURANCE

Introduction

1. This report summarises:
 - the key findings from completed Internal Audit reviews;
 - progress against, and any amendments to, the 2014/15 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 for the financial year to date. 6 assurance/advisory reviews have been finalised and 11 draft reports have been issued or are in the process of being finalised. Fieldwork is in progress for a further 20 audits. In addition 6 audits of establishments have been undertaken.
3. Progress against the Audit Plan for 2014/15 is 33% complete at end of September 2014; this is compared to the prorated target of 36% to achieve 90% of the Audit Plan by 31st March. Progress against Plan is therefore slightly below target but is ahead against the same reporting period in 2013/14 (28%) and on track to deliver 90% by year-end.
4. Progress against targets for other agreed Internal Audit Key Performance Indicators (KPIs) for the 2014/15 year are detailed within Appendix 1.

Follow up of agreed recommendations

5. Progress of Directorates in the implementation of agreed recommendations arising from our audit reports shows that of 85 recommendations due in the reporting period 36 are complete or have been superseded. Revised implementation dates have or are being agreed for all outstanding recommendations; 8 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. However we continue to monitor implementation and to review whether escalation is appropriate should further delays occur.

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 2014/15 Audit Plan and proposed amendments.
 - 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 October 2014

Samantha Buckland
Strategic Audit Manager
Ext. 4611



Kent County Council

Internal Audit Progress Report October 2014

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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 2014/15 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 2014/15 includes a total of 91 projects at September 2014. 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 amendments are proposed:

Deletions/Deferral

The audit of Sexual Health has been carried forward to 15/16 due to delays in re-letting elements of the contract. This will be replaced by an audit of Health Checks due to concerns about current achievement.

The following work has been undertaken year to date:

- 6 final reports/assurance/advisory work completed
- 11 draft reports issued or in the process of being finalised
- Fieldwork is in progress on a further 20 audits

In addition to the above, 4 audits have been completed at establishments, with 2 in progress. Detail of this and summaries of all final reports issued since the last Committee meeting can be found at Appendix A.

Overall progress on the 2014/15 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 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 end of August 2014 is shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	99%
Efficiency		
% of plan delivered (Note 1)	90% by year end Prorated 36%	33%
% of available time spent on direct audit work	85%	86%
% of draft reports completed within 10 days of finishing fieldwork (Note 2)	90%	89%
Preparation of annual plan	By April	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score	90%	99%

Note 1

Figure at end of September, therefore we are slightly below the prorated target however we are ahead of delivery reported at this time last year (28%) and are on track to deliver 90% by end of March 2015.

Note 2

This metric is based on 26 draft reports issued within the reporting period, of these 3 exceeded the 10 day deadline, one of which only exceeded by 1 day.

Appendix A

Summary of individual 2014/15 Internal Audits issued since April 2014

Core Assurance

Annual Governance Statement

Scope

The overall objective of the audit was to provide an assurance that directorate returns are appropriate and issues identified are managed adequately and effectively in order to meet service and corporate objectives.

Overall assessment - Substantial

Directorate returns are completed in order to provide the information required to produce the Council's AGS. This audit did not include a review of the Council's final AGS which is included in the Statement of Accounts, as this will be reviewed by the external auditors.

The Substantial assurance is based on there being an improvement in the profile of the AGS within directorates during the year, with a minimum of half yearly discussions of the AGS taking place in DMT meetings. Evidence was provided in most cases of actions that have already been taken or which are planned going forward to resolve the issues identified in the AGS process. Additional work in compiling the directorate returns has been necessary this year due to the Council-wide restructure and this has been effective, ensuring that all relevant issues have been raised.

We have made two recommendations to further improve controls, neither of which are high priority, which include ensuring that progress on all issues raised in the previous year are detailed in the current year's return and improvements to the AGS return template.

Core Financial Assurance

Value Added Tax

Scope

The overall objective of the audit was to provide an assurance that the risks associated with VAT are being managed adequately and effectively so that VAT returns are complete, accurate and timely, and that reasonable care is taken to prevent error or fraud.

Overall assessment - Substantial

The Chief Accountant's team has overall responsibility for ensuring that monthly VAT returns are submitted to HMRC which are accurate and timely, although reliance is placed on officers within the authority to correctly account for input tax on payments made and output tax charged to customers. The Council then reclaims the input tax and pays over the output tax to HMRC, which results in a net reclaim of VAT each month.

The 'Substantial' assurance is based on the controls in place in a number of areas including staff having access to a VAT manual which provides guidance on the VAT indicators they should use and what constitutes a valid VAT invoice. Monthly VAT returns are compiled based on accurate information from Oracle and have been submitted to HMRC in line with their timescales. The Partial Exemption calculation for 2013/14 has been estimated based on the final calculation from 2012/13 and has been regularly reviewed and updated throughout the year. The Corporate Director of Finance and Procurement receives quarterly VAT update reports.

We have made raised two issues, resolution of which would further improve controls, neither of which are high priority. These include the use of meaningful descriptions in Oracle for all transactions and the correct VAT indicators being used in all instances.

Accounts Receivable

Scope

The overall objective of the audit was to provide assurance that the risks to timely, complete and accurate raising of invoices are being managed effectively in order to meet service and corporate objectives.

Overall assessment – Substantial

The AR module in Oracle is used to raise invoices payable to the authority and for most invoices KCC service teams completed an AR01 form and submit this to the Assessment and Income Unit for processing.

The “Substantial” assurance is based on sample testing a number of AR01 forms completed for which input was found to be accurate and invoices raised promptly by the Assessment and Income Unit; few issues were identified.

We have raised 4 issues where management action that will further improve controls, which included AR01 forms not always being completed promptly and fully after the goods and services have been supplied. Sample testing also identified that any member of KCC staff can request an invoice cancellation.

Budget Build

Scope

The overall objective of the audit was to provide assurance on the management arrangements in place to produce and approve the Annual Revenue Budget and Medium Term Financial Plan (MTFP).

Overall assessment – Substantial

The audit found that the production of the Annual Revenue Budget and MTFP is well co-ordinated within Central Finance to ensure that the two documents are accurately prepared and reconciled throughout the budget build process. The final budget was approved with in the statutory timescale.

The audit also confirmed that the coding and subsequent upload of the detailed budgets to the Collaborative Planning and Oracle financial systems were performed accurately with appropriate reconciliations.

The ‘Substantial’ assurance is based on the examination of both documents and the detailed processes in place throughout the year to complete the budget process. There was evidence of extensive discussion between Corporate Directors, Members and public consultation to produce a balanced budget reflecting the Council’s financial and operational strategies.

We have raised two issues of which consideration would further improve control, neither of which are high priority. These include the need for documented procedure notes on the budget build process and a suggestion to consider alternative approaches to the budget build process to supplement the present incremental approach.

Risk/Priority Based

Gypsy & Traveller Unit – allocation of sites

Scope

The overall objective of the audit was to provide assurance that the decision and approval processes followed for allocating the new pitches were sound and in accordance with agreed procedure, to manage the Council's exposure to potential litigation claims.

Overall assessment - Limited

The Gypsy & Traveller Unit have responsibility for eight locations across the County that are used to accommodate the Gypsy & Traveller community. Work commenced in 2013 to increase the capacity at the Coldharbour site from eight to 26 pitches and the Gypsy & Traveller Unit were responsible for receiving, assessing and allocating applications for the newly available pitches.

The "Limited" assurance is based on sample testing a number of applications received and identifying that a lack of procedures has led to inconsistencies in the level of information received from applicants, the manner in which it is assessed and the level of detail retained on file. As this is the largest allocation of sites the Unit has dealt with for a number of years the lessons learnt from this site allocation process are essential to further improve the process going forward. Consequently, there remains a risk that if the Council was challenged on the allocation of pitches, we may not be able to demonstrate that a fair and proportionate process was followed, as currently the records held are incomplete and not sufficient to determine whether all applications have been assessed consistently.

We have raised 2 issues to further improve controls, one of which is high priority covering the inconsistent processing of pitch applications due to the absence, which we attribute to the absence of operating procedures.

Elective Home Education/Education Programme and Children Missing Education

Scope

The overall objective of the audit was to provide assurance that KCC has adequate and effective arrangements in place to ensure that children who are receiving Elective Home Education or are included on the Education Programme are identified, assessed, supported and monitored. For Children Missing Education, we assessed the arrangements to identify, track and support children back into full-time education.

Overall assessment – A split opinion has been given:

Children Missing Education and Education Programme - Substantial

Elective Home Education - Limited

For Children Missing Education, we found that the controls in place to For Children Missing Education, we found that the controls in place to identify, track and support children who are reported missing back into education are operating effectively. For the Education Programme, we found that children are identified, assessed, supported and monitored. Controls over the assessment, support and monitoring of children who are receiving Elective Home Education need to be improved.

Last year Ofsted carried out a review of children missing education at a sample of other Councils. We looked for evidence that the issues and recommendations raised in that report had been addressed by KCC. We have identified areas where these have not yet been actioned. This includes the identification of pupils receiving part-time education and a perceived trend by certain schools to 'off roll' children at particular times.

We have raised five issues as high risk and seven issues as medium risk. Management action will further improve controls in these areas. Issues identified include using the Impulse database as a central source to record and provide all up-to-date information and contact with children receiving Elective Home Education who have not been seen or visited in recent years.

Establishments

Scope and Progress

A programme of compliance audits is undertaken ongoing throughout the financial year; this includes, but is not limited to, Children's centres, adult day care, outdoor education centres, country parks, youth hubs and libraries. To date we have completed six audits at four respite care centres, one adult day care centre and one outdoor education centre. The audits review financial controls as well as quality/performance elements and safety and security controls. Thirteen final reports have been issued, and the remainder are complete with the draft report pending.

Summary of findings

Key strengths include engagement with service users as well as cleanliness/infection control, health and safety risk assessments and building security.

Areas for improvement include:

- Improving asset registers, stock records and stock checks.
- Controls to manage the completeness and accuracy of income
- Implementing controls over authorisation/verification of timesheets.
- Arrangements for data protection and records management, including adequately securing records and laptops out of office hours.
- Improving gaps in key training and in training records.

Management of Change and Improvements

Scope and Progress

In order to provide assurance in relation to significant change programmes and projects Internal Audit are undertaking a number of relevant reviews; at September 2014 this includes:

Care Act Preparedness
Adult Social Care Transformation, including Quality in Care and Commissioning of Older Persons Residential Care
The 0-25 Unified Portfolio
New Ways of Working
Checkpoint reviews for all stage one and two transformation
Broadband Delivery UK

This includes review of significant documentation and regular liaison with key officers, including Portfolio Assurance Managers and the Facing the Challenge Team. In addition Internal Audit currently attend the following:

- The Accommodation Commissioning Group
- The Care Act Board
- The Finance Monitoring Group for Children's Social Care and Early Help Services
- Corporate Portfolio Office Checkpoint Review Meetings

Any issues arising are queried with relevant officers as and when with actions agreed. Periodic reports are/will be produced as required at key stages and an overall report for each will be produced at year end. These last will be reported to this committee in the 2014/15 Annual Report and Head of Internal Audit Opinion.

We have also reviewed self-certifications submitted by KCC this year to date to support the Payment by Results element relating to Troubled Families and found these to be compliant.

Appendix B

Detailed Analysis of Internal Audit Progress on 2014/2015 Plan

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Core Assurance							
Strategic Partnership Governance	Planning			Individual Contracts	Fieldwork		
Corporate Governance				Company Governance/ADSM Advice			
Annual Governance Statement	Complete	October 2014	Substantial	Remote Site Compliance Visits	Fieldwork	Update in each paper	Various ¹
Schemes of Delegation				Transformation Programme and CPO Support	Fieldwork		
Risk Management	Planning			Contracts of employment - new contracts and changes	Planning		
Business Continuity & Resilience Planning				Equality and Fairness at Work - Performance and Capability	Draft Report		
Information Governance				Health & Safety Follow-up	Review		
Records Management	Review			Use of Recruitment Agencies	Planning		
Customer Feedback	Planning						
Core Financial Assurance							
Payroll	Draft Report			General Ledger	Planning		
Revenue Budget Monitoring				Budget Build	Complete	October 2014	Substantial
VAT	Complete	October 2014	Substantial	Inland Revenue Accounting (PIID, PAYE, NIC)	Planning		

¹ Relates to the annual programme of establishment visits, progress and key themes are summarised on p.10

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Payments Processing				Accounts Receivable (manual invoices and AR wizard, billing from SWIFT)	Complete	October 2014	Substantial
Bank Accounts	Review			Financial Assessment Unit	Planning		
Client Financial Affairs	Draft Report			Corporate Purchase Cards	Planning		
Insurance - managing insurances and claims handling	Planning			Treasury Management			
Pension Fund Investment Income				Pension Contributions			
Schools Financial Services				Schools Financial Services (Returns)	Fieldwork		
Procurement				Recharges	Planning		
Risk/Priority Based Audit							
Capital Project Delivery				Property Service Desk			
New Ways of Working	Fieldwork			Total Facilities Management	Planning		
Direct Payments	Planning			Enablement	Planning		
Supervisions				H&SC Integration – Kent Card	Planning		
H&SC Integration – Better Care Fund	Fieldwork			H&SC Integration – Health Monies spend/audit	Cancelled	N/a	N/a
Optimisation	Planning			Care Act Preparedness	Fieldwork		
Promoting Independence Reviews	Fieldwork			Safeguarding – Financial Abuse	Fieldwork		
Foster Care				Adoption			
Children's Services Transformation Programme - Watching Brief	Fieldwork			Children's Services Transformation Programme - Baseline Assurance	Planning		
Children's Payments – s17	Fieldwork			Commissioning & Quality in Care Frameworks	Fieldwork		

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Supporting People	Planning			Kent Drug and Alcohol Action Team (KDAAT)	Review		
Adult Social Care Transformation Programme – Watching Brief	Fieldwork			Domiciliary Care – Post Contract Review			
Sexual Health (replaced by Health Checks)	Cancelled	N/a	N/a	Health Checks	Planning		
Prescribing	Planning			NICE Guidance			
Serious Untoward Incidents				Home-to-School Transport, including Special Educational Needs	Planning		
Elective Home Education/ Home Teaching & Children Missing Education	Complete	October 2014	Split Substantial/ Limited	Data Quality – Education & Social Care	Fieldwork		
Apprenticeships				Workplace Nurseries	Draft Report		
Additional Funding, including Premiums & Collaborations	Planning			SEN Assessment & Funding	Planning		
Schools Themed Reviews, including purchase cards and procurement	Planning			Troubled Families	Fieldwork		
KIASS, including Checkpoint Review	Planning			Broadband Development UK	Fieldwork		
Regional Growth Fund	Planning			Developer Contributions	Planning		
AMEY Contract Payments	Planning			Gypsy & Traveller Unit (allocation of Sites)	Complete	October 2014	Limited
Concessionary Fares	Review			Expenses – Members & Officers	Planning		
Household Waste & Recycling Contract	Planning			Waste Contract Management	Planning		
West Kent Waste Partnership				Kent Resource Partnership	Fieldwork		

Project	Progress at April 2014	Date to G&A	Overall Assessment	Project	Progress at April 2014	Date to G&A	Overall Assessment
Libraries Programme – Checkpoint Review	Fieldwork			Carbon Reduction Commitment	Fieldwork		
Commercial Services - Watching Brief	Fieldwork			Sports Grants			
Healthwatch Kent (carried forward from 13/14)	Draft Report						
IT Audit							
Website (carried forward from 13/14)	Draft Report						

Appendix C

Other 2014/2015 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 £850,000 with a 50% grant recovery rate, this equates to grant income to the Council of approximately £305,000 and £120,000 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.

In 2014/15 we have undertaken 11 visits in total; all of which were to sign off annual returns for 2013/14.

Kent Fire

Kent County Council Internal Audit currently provides the internal audit service for the Kent and Medway Fire and Rescue Service. The plan for 2014/15 comprises 95 days made up of 9 audits, plus management time and contingency. At the end of September 2014 32% of the plan has been delivered.

Commercial Services

KCC Internal Audit work with the internal audit team of Commercial Services to ensure that their work undertaken is undertaken in accordance with professional standards and the scope of work is adequate for the purpose of reliance. Where necessary additional work is undertaken to ensure there is an appropriate level of assurance to allow a safe opinion on the systems for governance, risk management and internal control.

Ad Hoc/Advisory Work and Attendance at Key Working Groups

Other ad hoc/advisory work undertaken includes ongoing advice and support in relation to a number of areas of service change/improvement. Internal audit also attend, or are virtual members of, the following groups in an advisory capacity:

- Risk Management Group
- Business Continuity Management/Emergency Planning

- Information Governance Cross Directorate Group
- Procurement standard working papers working group and Spending the Council's Money
- Direct Payments Steering Group
- Libraries, Archives and Registrations review/new system project group

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 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Authority Wide						
Members Expenses	1	1	1	1	To be followed up as part of 2014/15 audit of expenses	31 st December 2014
Core Assurance						
Annual Governance Statement		2			Implemented	
Business continuity and resilience planning 2012-13		1			Implemented	
Business continuity and resilience planning 2013-14		3		1	One recommendation outstanding due to waiting for KCC's development of SharePoint to start easy distribution of Business Continuity plans.	31 st December 2014
Performance Management Framework including Data Quality		1		1	All actions have commenced but still need to finalise the first performance report with associated PIDs also being finalised.	30 th September 2014
Information Governance		2		2	The Data Quality plan is in progress and high impact data quality issues are being tracked however it is not yet complete. Data Quality resources have been focused on ensuring the accuracy of Statutory Returns to DfE and Ofsted over the last three months which has delayed the completion of the Data Quality Plan.	30 th September 2014

Audit	Recommendations to be implemented by 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Strategic Sourcing & Procurement		4		4	To be followed up as part of 2014/15 audit of Procurement.	
Recruitment and Selection		3			Implemented or no longer relevant due to new Recruitment system	
Core Systems						
Cash and Bank (including reconciliations)		1			Implemented	
Revenue Budget Monitoring		4			Implemented	
Foster Care Payments	2	2		1	Project Board has recently been set up re Controc	31 st December 2014
Transaction Data Matching		3			All recommendations have been implemented or the service has accepted the risk.	31 st December 2014
Social Care Client billing		1			Implemented	
Corporate Purchase Cards follow up review		1			Implemented	
Registrations		6		6	Recommendations currently being followed up.	
Risk Based						
Public Health - Operational Arrangements		1			Implemented	
Public Health responsibilities		2			Recommendation superseded	

Audit	Recommendations to be implemented by 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Special Education Needs		1			Implemented	
Contract Letting and Compliance	1	5	1	1	Actions currently in progress to implement recommendations.	31 st December 2014
ELS Capital Projects - Cost overruns		1			Implemented	
EduKent	4	3	4	3	Pending outcome of FTC market reviews	30 th September 2014
Community Learning Services	1	12	1	12	Pending outcome of FTC market review	30 th September 2014
Communications		2			Implemented	
IT Audits						
User remote access		1		1	UAG is currently under review for being ceased and a new approach being provided which would ensure encapsulation of the activity from the end point device and therefore negate the need to manage the device. At present it is accepted the current product is not sufficiently complex to rationalise the myriad of technology that might be rightfully presented to deliver the business need for the organisation. Therefore the minimum controls shown to work to date will remain in force until the service is replaced.	31 st March 2015
Oracle General Ledger - application		1			Implemented	
SWIFT - application		2		2	Work is in progress but full implementation is dependent on a scheduled system upgrade	31 st March 2015
WAMS - application		5		3	No response received for the remaining 3 medium priority recommendations.	

Audit	Recommendations to be implemented by 30 June 2014		Recommendations outstanding as at 30 June 2014		Comments	Revised implementation date
	H	M	H	M		
Disaster Recovery		1		1	No response received.	
IT Procurement	1	2	1	2	For 1 medium priority recommendation, a working group has been set up to amend the Policy and the date for implementation has been amended to the 30 th September 2014. For the remaining 2 recommendations, no response was received.	30 th September 2014
Investigations						
Customer Service Interface Procurement	1				Implemented	
Total	11	74	8	41		

H = High risk

M = Medium risk

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By: Bob Patterson – Head of Internal Audit

To: Governance and Audit Committee – 3 October 2014

Subject: **ANTI-FRAUD AND CORRUPTION PROGRESS REPORT**

Classification: Unrestricted

Summary: This paper provides a summary of progress of anti-fraud and corruption activity as well as the outcome of investigations concluded since the last Governance and Audit Committee meeting in July 2014.

FOR ASSURANCE

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.

Anti-Fraud and Corruption Activity

Department for Communities and Local Government Fraud Fund

2. The Department for Communities and Local Government (DCLG) has acknowledged that local authorities have complex and conflicting demands with limited counter fraud resources, and that the transfer of benefit fraud investigators from local authorities to the Single Fraud Investigation Service from 2014 may also create challenges to some authorities' investigative capacity. In response, DCLG has invited local authorities to submit applications for a £16m fraud fund with the intention of increasing the capacity and capability of local authorities to tackle losses from non-benefit fraud.
3. In consultation and agreement with every Kent local authority we have prepared and submitted an innovative joint bid to establish a Kent wide, cross local authority intelligence sharing and analytics partnership with the shared objective to detect, prevent and deter fraud and corruption. The partnership will utilise data from the 14 local authority partners, Companies House and social housing providers to focus counter fraud resources on high risk areas of fraud such as council tax, business rates, social housing and procurement.
4. If successful, the bid will provide funding to purchase and implement a data analytics software solution across the partnership including the necessary training and support. The estimated savings from the project in year 1 and 2 exceed £4m across all the partners and there are wider benefits including improved management information and debt recovery. The successful applicants will be notified by the end of October 2014.

Blue Badge Fraud and Error

5. The primary purpose of the Blue Badge Scheme is to provide a range of parking concessions for people with severe mobility problems who have difficulty using public transport, so that they can park close to where they need to go.
6. Kent County Council is responsible for the local administration and enforcement of the Blue Badge Scheme. There are currently over 70,000 blue badges in issue throughout Kent.
7. Misuse of the scheme reduces the availability of these parking concessions for genuine badge holders as well as revenue from parking. In 2013 the recently closed National Fraud Authority estimated that the misuse of blue badges costs the UK economy £46m per year.
8. We have identified some inconsistencies in Blue Badge enforcement across the district and borough councils and we believe there are opportunities to identify best practice which could be shared across the Kent districts.
9. We have therefore agreed with management and Members to work more closely with Maidstone Borough Council on a trial basis and target Blue Badge misuse. On a specific day we will target parking hotspots to:
 - Talk to genuine badge users to discuss any concerns they may have regarding misuse of the blue badge scheme.
 - Educate the public about the appropriate use of a Blue Badge.
 - Reassure genuine badge holders that KCC and Maidstone Borough Council are actively pursuing misuse.
 - Detect inappropriate or unlawful use of Blue Badges and where appropriate issue a penalty charge notice (by Maidstone Parking Enforcement), or in the most serious cases of misuse, pursuing a criminal prosecution.
 - Create a deterrent effect so that future misuse will be reduced, thus ensuring availability of parking spaces for genuine badge holders.
10. The results of the trial will be reported to management and the Governance and Audit Committee. If successful, we will work with the remaining council in Kent to implement similar activity.

Fraud Awareness Campaign

11. We previously reported the launch of a Fraud Awareness Campaign in November 2014. The campaign includes a new e-learning module. The fraud awareness module has now been completed and is available in advance of the campaign on the e-learning gateway.

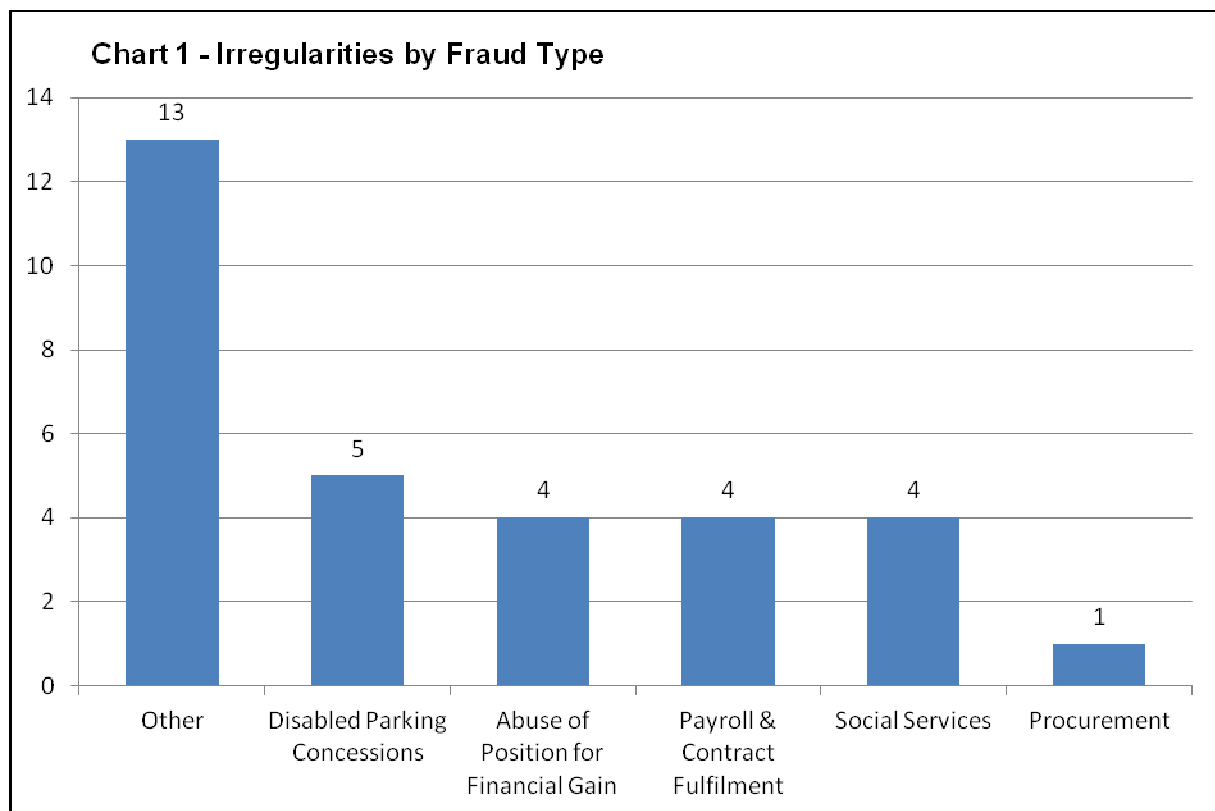
Irregularities

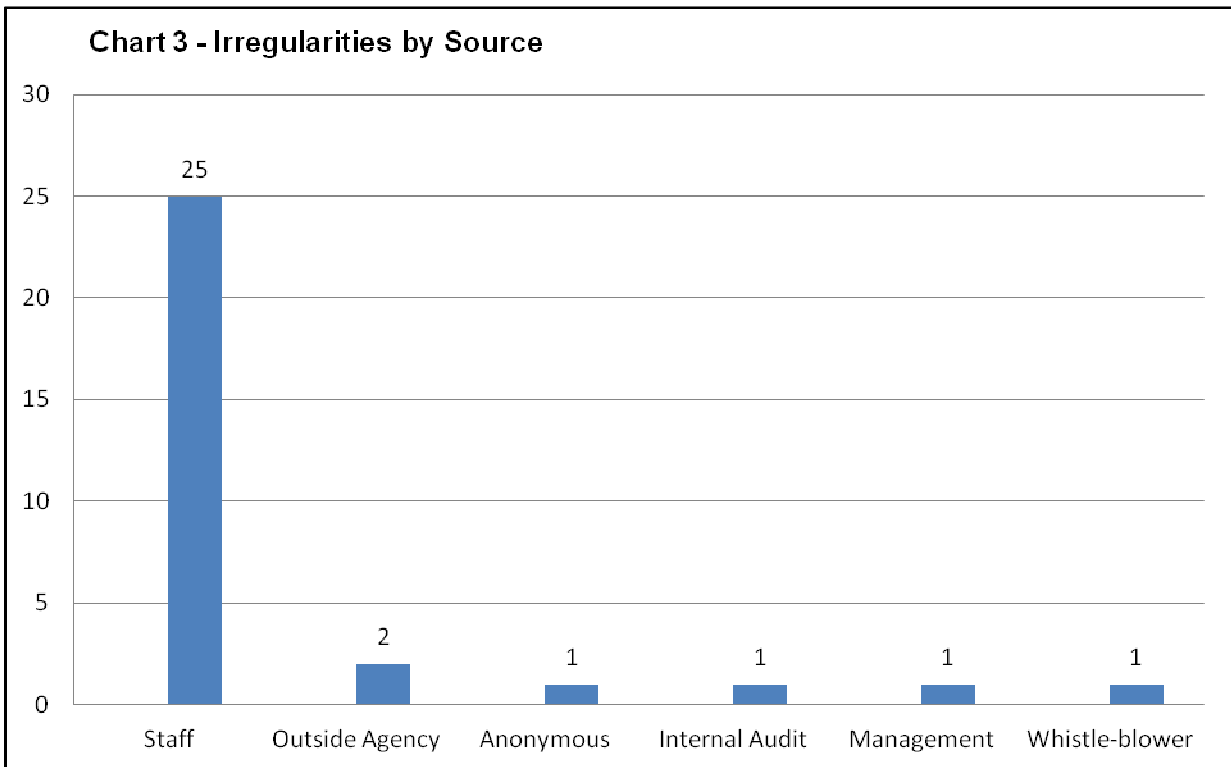
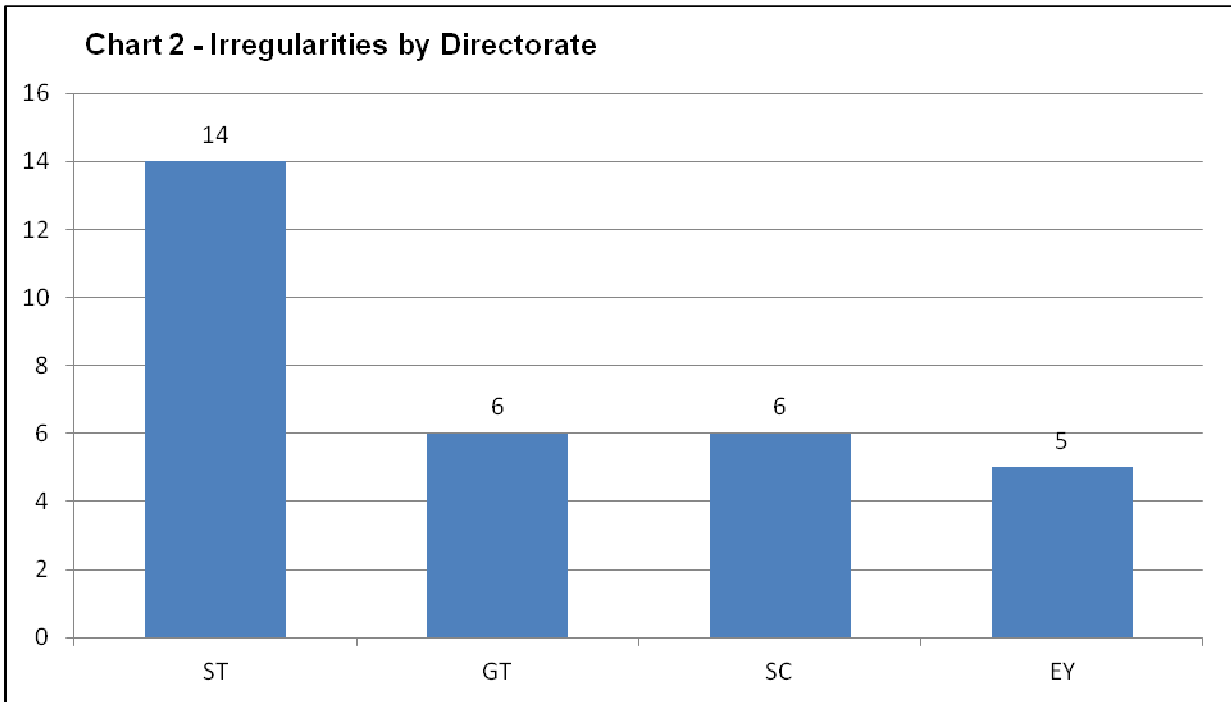
12. The following table summarises the financial irregularities under investigation since the 18 June 2014. Summaries of the concluded irregularities are set out in Appendix A.

Table 1 – Irregularities Received

	Number of Irregularities
Bought forward at 18 June 2014	26
New irregularities recorded in period	15
Concluded in period	13
Carried forward at 9 September 2014	28

13. In total, Internal Audit has recorded 31 new irregularities in 2014/15. The most common types of fraud reported have been related to Disable Parking (5), Abuse of Position for Financial Gain (4), Payroll and Contract Fulfilment Fraud (4) and several (13) falling within the 'Other' category as defined by the Audit Commission. The 'Other' category includes numerous school cheque frauds and allegations related to Kent Support and Assistant Applications (KSAS). The Audit Commission's definitions for each fraud type are detailed in Appendix B. A breakdown by type, directorate and source is shown below.





14. The most common source of referral continues to be staff (25) which indicates a good level of fraud awareness but we will continue to promote an anti-fraud culture and encourage management and staff to report any concerns.

Recommendations

11. Members are asked to note for assurance:

- the progress of prevention and investigation anti-fraud and corruption activity.

Appendices

Appendix A Summary of Concluded Irregularities

Appendix B Definitions of Fraud Types

Paul Rock
Counter Fraud Manager (Ext: 4694)

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Summary of Concluded Financial Irregularities

Ref	Internal or External	Allegation	Outcome
884	External	It was alleged that an employer submitted potentially false documents to support a grant application.	<ul style="list-style-type: none"> The subsequent investigation identified that some of the documents submitted were false at the time they were submitted. However further supporting documentation was requested and the employer was able to supply genuine documentation to support the payments. Further audit work is planned in 2014/15 to review the business area.
909	External	Internal Audit were alerted (via a safeguarding alert from CQC) about an allegation concerning staff employed in a privately run care home who had been borrowing money from clients' personal allowances to supplement the provider's operating costs.	<ul style="list-style-type: none"> The investigation identified no evidence of fraud or theft however the financial arrangements within care home were inadequate and all of the clients placed in the care home by KCC have been removed and alternative providers have been identified. The care home is now closed.
932	Internal	Internal Audit was advised of an allegation concerning a member of staff who was allegedly failing to deliver his contracted hours.	<ul style="list-style-type: none"> Management undertook a preliminary investigation and identified a small number of potential discrepancies. The member of staff resigned due to ill health prior to the disciplinary hearing.
939	Internal	Internal Audit was advised of the theft of six iPads from a Kent school by a Teaching Assistant.	<ul style="list-style-type: none"> At the time of the notification the school had already notified the police who had arrested and charged the Teaching Assistant (TA). The TA was subsequently convicted of fraud and sentenced (4 months custody suspended for a year and £900 compensation paid to the school). The TA resigned from the school prior to the conclusion of a disciplinary hearing.
940	External	Internal Audit was advised about persistent abuse of a disabled parking bay outside a Blue Badge Holder's home allegedly by a member of their family.	<ul style="list-style-type: none"> The Blue Badge Team issued a warning letter to the Blue Badge holder advising them of their rights and responsibilities. Internal Audit provided the anonymous information to the appropriate district council so their Parking Enforcement Team could monitor the situation.

950	Internal	Internal Audit was alerted by a whistle-blower to an allegation relating to some members of staff undertaking private work using KCC resources.	<ul style="list-style-type: none"> The whistle-blower was unable to provide any further information. No evidence of fraud was identified. Management implemented an action plan to minimise the opportunities for staff to work unsupervised and outside core business hours.
951	Internal	Internal Audit was alerted to allegations related to the supply of unqualified staff by a private care provider.	<ul style="list-style-type: none"> The investigation revealed no evidence of fraud however there were concerns related to service delivery and the supplier was removed from the supplier framework. In addition, improvements have been made to the vetting and contract management processes.
957	External	Internal Audit was advised of a fraudulent application to the Kent Support and Assistance Service.	<ul style="list-style-type: none"> The preliminary enquiries confirmed the applicant had not been in receipt of Job Seekers Allowance for many months, which was contrary to the information provided on his application. The application was refused and the applicant was issued a warning letter.
958	External	A Kent school was alerted by their bank (Natwest) to a fraudulent cheque that had been presented for £4,900 but had not paid.	<ul style="list-style-type: none"> Preliminary enquiries by the bank revealed the school's cheque book had been intercepted in transit between the bank and school. The bank is investigating. A referral has been made to the Post Office Investigation Division.
961	External	Internal Audit was advised of a fraudulent application to the Kent Support and Assistance Service.	<ul style="list-style-type: none"> Preliminary enquiries revealed the applicant had provided false information about her family's circumstances. The application was refused and a warning letter was issued. In addition, HMRC were advised of a potential allegation of benefit fraud.
964	External	Internal Audit was advised of a fraudulent application to the Kent Support and Assistance Service.	<ul style="list-style-type: none"> Preliminary enquiries revealed the applicant had attempted to sell the voucher issued to her for a new carpet. The voucher was cancelled and the applicant was issued with a warning letter.
969	External	Internal Audit was advised that items previously awarded to a Kent Support and Assistance Service applicant had allegedly been sold.	<ul style="list-style-type: none"> Preliminary enquiries revealed the applicant had repeatedly returned allegedly damaged furniture provided via KSAS to the store and had unsuccessfully sought a refund. A warning letter was issued to the applicant.

Audit Commission Definitions of Fraud Types

Procurement	This is any fraud linked to the false procurement of goods and services for the organisation either by internal or external persons or companies including, but not limited to: violation of procedures; manipulation of accounts; records or methods of payment; failure to supply; failure to supply to contractual standard
Fraudulent Insurance Claims	This is any insurance claim against your organisation or your organisation's insurers that proves to be false.
Social Services Fraud	This is any fraud linked to social services provision including, but not limited to: false payments to contractors for house modifications; personalised budgets for the purchase of care; failing to declare capital and assets; care provision by contractors or a non governmental organisation which are not for the benefit of the person being cared for.
Economic & Third Sector Support Fraud	This is any fraud that involves the false payment of grants, loans or any financial support to any private individual or company, charity, or non governmental organisation including, but not limited to: grants paid to landlords for property regeneration; donations to local sports clubs; loans or grants made to a charity.
Debt Fraud	This is any fraud linked to the avoidance of a debt to the organisation including, but not limited to: council tax liabilities; rent arrears; false declarations; false instruments of payment or documentation.
Pension Fraud	This is any fraud relating to pension payments including, but not limited to: failure to declare changes of circumstances; false documentation; or continued payment acceptance after the death of the pensioner.
Investment Fraud	This is any fraud relating to investments including, but not limited to: the fraudulent misappropriation of assets; or loss through breach of procedures
Payroll & Contract Fulfilment Fraud	This includes, but is not limited to: the creation of non existent employees; unauthorised incremental increases; the redirection or manipulation of payments; false sick claims; not working required hours; or not undertaking required duties.
Employee Expense Fraud	This includes, but is not limited to: false declarations of mileage; false documentation to support allowances; breaches of authorisation and payment procedures.

Definitions of Fraud Types

Abuse of Position for Financial Gain	This could include frauds not reported elsewhere (the financial gain could be for the fraudster or other) including, but not limited to: the misappropriation or distribution of funds by someone taking advantage of their position such as payments officers, bursars or finance managers; or fraudulently securing a job for a friend or relative.
Manipulation of Financial or Non-Financial Information	This includes, but is not limited to: the falsifying of statistics to ensure performance targets are met; or the adjustment of accounts to remain within set financial limits for the benefit of an individual or the organisation.
Disabled Parking Concessions	Blue Badges
Recruitment	This could involve any applications, including attempts, to gain employment or subsequently where any of the details prove to be false including, including but not limited to: false identity, immigration (no right to work or reside); false qualifications; or false CVs.