

GOVERNANCE AND AUDIT COMMITTEE

Friday, 2nd October, 2015

10.30 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a training session at 10.00 am for Members of the Committee on Embedding Effective Counter-Fraud Measures





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Friday, 2nd October, 2015, at 10.30 am
Darent Room, Sessions House, County Hall,
Maidstone

Ask for: **Andrew Tait**
Telephone: **03000 416749**

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 M Baldock, 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

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UNRESTRICTED ITEMS

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

1. Introduction/Webcasting
2. Substitutes
3. Declarations of Interest in items on the agenda for this meeting

4. Minutes - 23 July 2015 (Pages 5 - 12)
5. Dates of meetings in 2016
Wednesday, 24 January 2016
Wednesday, 27 April 2016
Thursday, 21 July 2016
Thursday, 6 October 2016
6. Committee Work and Member Development Programme (Pages 13 - 16)
7. KCC Insurance Overview (Pages 17 - 22)
8. Treasury Management Update (Pages 23 - 32)
9. External Audit Annual Audit Letter 2014/15 (Pages 33 - 42)
10. External Audit Update October 2015 (Pages 43 - 58)
11. Internal Audit Progress Report - Mr Peter Oakford will be present for this item.
(Pages 59 - 120)
12. Internal Audit and Counter Fraud Benchmarking Report (Pages 121 - 134)
13. KCC Annual Customer Feedback Report 2014/15 (Pages 135 - 150)
14. 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
03000 416647

Thursday, 24 September 2015

Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.

TERMS OF REFERENCE

Governance and Audit Committee

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.
- (j) The Council monitors the implementation of the Bribery Act Policy to ensure that it is followed at all times.

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, 23 July 2015.

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

ALSO PRESENT: Miss S J Carey, Mr P B Carter, CBE and Mr J D Simmonds, MBE

OFFICERS: Mr A Wood (Corporate Director Finance and Procurement), Mr N Vickers (Head of Financial Services), Mrs C Head (Head of Financial Management), Miss E Feakins (Chief Accountant), Mr N Cramp (HRBC Control Officer), Mr H Swan (Head of Procurement), Mr G Wild (Director of Governance and Law), Mr R Patterson (Head of Internal Audit), Ms S Buckland (Audit Manager), Mr J Burr (Director of Transformation and Commercial Services), Mrs C Jenden (FTC - Review Team Manager), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager), Ms S Cheeseman (Business Manager), Mr P Segurola (Interim Director of Specialist Children's Services) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Ms E Olive, Mr P Hughes, Mr N White and Mr T Ball from Grant Thornton UK LLP

UNRESTRICTED ITEMS

26. Membership
(Item 2)

The Committee noted the appointment of Mr M Baldock in place of Mr H Birkby.

27. Minutes - 29 April 2015
(Item 5)

RESOLVED that the Minutes of the meeting held on 29 April 2015 are correctly recorded and that they be signed by the Chairman.

28. Committee Work and Member Development Programme
(Item 6)

29. External Audit Update July 2015
(Item 7)

(1) Mr N White from Grant Thornton UK LLP reported on progress up to 1 July 2015 on the planned audits for 2015/16.

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

30. External Audit Annual Findings Report 2014/15

(Item 8)

(1) Mr Paul Hughes from Grant Thornton UK LLP tabled a revised version of the Audit Findings report from the audit of the County Council's 2014/15 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 2015. It also included the results of the work undertaken to assess the Council's arrangements to secure value for money.

(2) RESOLVED to;-

- (a) note that no adjustments have been identified to the financial statements of the County Council;
- (b) note the Audit Findings Report's conclusions on value for money and the Council's financial resilience; and
- (c) agree the draft management response to the action plan set out in Appendix A of the Audit Findings Report.

31. External Audit Pension Fund Audit Findings Report 2014/15

(Item 9)

(1) Mr T Ball 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 2015.

(2) Mr J E Scholes reminded the Committee that he was the Chairman of the Superannuation Fund Committee. He praised the high quality of all the staff involved in preparing the accounts.

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

32. External Audit Planned Audit Fee 2015/16

(Item 10)

(1) Mr P Hughes from Grant Thornton UK LLP introduced a report setting out the scale and scope of the external audit fee for 2015/16. He explained that the fee had been reduced by 25% from that of 2014/15 due to the procurement exercises run by the Commission across the local Government sector.

(2) RESOLVED that the planned audit fee for 2015/16 be noted.

33. Draft Statement of Accounts 2014/15

(Item 11)

(1) Mr J D Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement introduced the draft Statement of Accounts for 2014-15. He drew

attention to the achievement of everyone involved in preparing the draft Statement for once again having produced it so rapidly, despite the immense scope and complexity of the County Council's budget.

(2) The Chief Accountant drew attention to the Unqualified Opinion issued by the Independent Auditor.

(3) RESOLVED that:-

- (a) approval be given to the Statement of Accounts for 2014/15;
- (b) approval be given to the Letters of Representation set out in the Appendices to the report; and
- (c) the recommendations made in the Annual Findings be noted.

34. Schools Audit Annual Report

(Item 12)

(1) The Business Manager gave a report summarising the Schools Financial Services compliance programme and other activities undertaken during 2014-15 which enabled the Chief Finance Officer to certify that there was a system of audit for schools which gave adequate assurance over financial management standards in schools maintained by the County Council.

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

35. Internal Audit Annual Report

(Item 13)

(1) The Head of Internal Audit summarised the outputs of the Internal Audit and Counter Fraud work for 2014-15, provided a "substantial" opinion on the Council's systems of governance, risk management and internal control. He also provided comment on the performance of the Internal Audit and Counter Fraud Unit in delivering this work.

(2) The Committee discussed the report's findings on Safeguarding related issues, section 106 Agreements and financial irregularities.

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

36. Transformation Programme - Legal Services and Back Office Procurement Project

(Item 14)

(1) Mr P B Carter, Leader of the Council introduced an update report on the progress of the Legal Services and the Back Office Procurement Project and set out the next steps in the process.

(2) The Transformation Director said that whilst the timetable leading up to the Cabinet meeting on 21 September 2015 was tight, he was confident that (whatever the eventual decision) quality would not be compromised in any way, due to the

depth and scope of the discussions that had taken place throughout the process to date.

- (3) RESOLVED that progress to date on the Transformation Programme be noted for assurance.

37. Update of Contracts and Tenders Standing Orders part of the Constitution
(Item 15)

(1) The Head of Procurement recommended proposed changes and updates to the Contracts and Tenders Standing Orders to reflect the changes in working practices with respect to how procurement was delivered within the Council and in order to ensure that recent changes to the content of *Spending The Council's Money* was properly reflected.

(2) Mr M Baldock moved, seconded by Mr C P D Hoare that the flow lines connecting the "Justify" and "Kent Business" boxes to the "Procure" and "Evaluate" boxes in the first two flowcharts appended to the report be merged.

Lost 5 votes to 9

- (3) RESOLVED that the updated Contracts and Tenders Standing Orders be agreed as set out in the Appendix to the report for inclusion in Appendix 5 of the Constitution.

38. Treasury Management Annual Review 2014/15
(Item 16)

(1) Mr J D Simmonds, Deputy Leader and Cabinet Member for Finance and Business Support introduced the report which summarised Treasury Management activities in 2014 – 15. He drew attention to the County Council's new Treasury Management Strategy which had enabled it to increase its returns by £3m over what it would have been able to achieve if it had not been able to diversify its investments.

- (2) RESOLVED that the report be endorsed for onward submission to the County Council.

39. Debt Management
(Item 17)

(1) The Head of Financial Services reported the County Council's debt position. He agreed to provide details of the write offs set out in paragraph 25 of the report to any Member of the Committee who requested this information.

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

40. Corporate Risk Register
(Item 18)

(1) Mr P B Carter, Leader of the Council introduced the Corporate Risk Register, drawing attention to the implications of the delay in the implementation of Part 2 of the Care Act 2014, the issues surrounding the high risk rating for the Safeguarding of

vulnerable adults and children, and the current saturation of the Foster Care market.

(2) The Director of Strategy, Policy, Relationships and Corporate Assurance agreed to inform Members of the Committee of the process for agreeing plans required by the Civil Contingencies Act 2004.

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

41. Action Plans arising from Internal Audit of the Fostering Service
(Item 19)

(1) The Director of Specialist Children's Services reported on the action plan completed in response to the recent review of the Fostering Service in Kent carried out by Internal Audit. He said that all aspects of regulatory compliance were monitored monthly, leading to consistent improvement.

(2) The Director responded to a question by saying that he did not consider that a stand-alone risk register for the Fostering Service was necessary.

(3) The Head of Internal Audit explained that he had recommended a Risk Register, and that the Director had put compensatory management measures in place, for which he would be accountable if any issues arose.

(4) The Committee agreed to receive a further report at its next meeting, giving the results of the Internal Audit follow-up report on the Foster Care Service and that the Cabinet Member for Specialist Children's Services would also be invited to attend and answer Members' questions.

(5) RESOLVED that:-

(a) the report be received;

(b) a further report be prepared for the next meeting of the Committee, giving details of Internal Audit's follow-up report on the Foster Care Service; and

(c) the Cabinet Member for Specialist Children's Services be invited to attend the next meeting in order to respond to Members' questions on this matter.

42. Elizabeth Olive
(Item)

The Chairman thanked Ms Liz Olive on behalf of the Committee for the clear and helpful external audit advice she had given the County Council for the previous 5 years.

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

To: Governance and Audit Committee – 2nd October 2015

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

Classification: Unrestricted

Summary: This report provides an update on the forward Committee Work and Member Development programme following 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 2016. 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 does not 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 2015-16, the following sessions were agreed for pre-meeting briefings, focusing on areas that are of specific relevance to this Committee. The first of these was delivered prior to today's meeting.

Description	Timing
Embedding effective counter-fraud measures.	October 2015
The role of the Governance & Audit Committee and safeguarding.	January 2016
Assurance on managing change	April 2016

6. Members may also ask for additional training if they require.

Recommendations

7. It is recommended that Members approve the forward Committee Work (*Appendix 1*).

Robert Patterson
Head of Internal Audit (03000 416554)

Committee Work Programme

Appendix 1

Category / Item	Owner	Oct - 15	Jan - 16	Apr - 16	Jul - 16	Oct - 16
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 Review	NV				✓	
Ombudsman Complaints	GW					✓
Annual Complaints & Customer Feedback Report	DC	✓	✓			✓
Update on Savings programme/transformation programme	AW/CJ		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	MR			✓		
Corporate Governance						
Update on development of management guides	DW	If significant changes to the approach or purpose of the management guides				
Annual review of Terms of Reference of G & A	RP		✓			
Debt Management	NV		✓		✓	
Facing the Challenge – governance update	JB	✓		✓		✓
Annual review of the Council's Code of Corporate Governance	GW	If material changes to the Code				
Commercial Services Policies	AW	If informed of material changes to Policies				

Category / Item	Owner	Oct - 15	Jan-16	Apr-16	Jul-16	Oct - 16
Internal Audit and Counter Fraud						
Internal Audit and Counter Fraud Progress Report	RP	✓	✓	✓		
Schools Audit Annual Report	RP				✓	
Internal Audit and Counter Fraud Annual Report	RP				✓	✓
Internal Audit Strategy and Annual Plan	RP			✓		
Internal Audit Benchmarking Report	RP	✓				✓
Review of the anti-fraud and anti-corruption Strategy (part of progress report)	RP	✓				✓
Review of anti-money laundering Policy	RP		✓			
External Audit						
External Audit Update	RP	✓	✓	✓	✓	
External Audit Findings Report/Value for Money and Annual Audit Letter	RP				✓	✓
Pension Fund Audit Findings Report	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			✓		

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

To: Governance and Audit Committee – 2 October 2015

Subject: **KCC INSURANCE OVERVIEW**

Classification: Unrestricted

Summary: This paper provides a summary of insurance activity since April 2014 and other points of interest.

FOR ASSURANCE

INTRODUCTION

1. The Council's insurance programme is extensive and designed to provide increased financial control of the risks flowing from the diverse nature of its activities undertaken to meet statutory duties, support general business functions as well as income generating operations.
2. This report provides a review of activity since April 2014 and other points of interest.

INSURANCE PROGRAMME

3. The insurance programme, which covers all directorate operations and schools, is made up of a number of policies. The total cost of all policies for 2015 was £3.27m. The main policies purchased are Employers Liability, Public Liability, Property and Motor which together make up 84% of the annual expenditure on external insurance premiums.
4. When the last insurance report was submitted to the Committee in July 2014 there were no indications from the main insurer, Zurich Municipal, that they would alter the financial structure of the programme above the 8% increase in the casualty covers (Public Liability, Employers Liability etc.) that had previously been agreed for the 2015 insurance year. However, shortly after submission of this report the insurer advised that the excess would be increased from £50k per event to £100k for the casualty covers and also raised what is known as the Aggregate Stop from £4.5m to £7.8m. This revision of terms was due to the receipt over the previous year of an increased number of high value losses. This further revision to premium terms is expected to result in the Council having to meet and estimated £400k in additional excess payments over the life of the casualty covers based on current claim patterns. The impact of the increase in the Aggregate Stop is difficult to gauge and even if it did cause the Council to incur additional expenditure this would

not be felt for many years to come due to the time it would take to accumulate sufficient expenditure to breach the 'Stop' limit.

TENDER EXERCISE

5. All contracts under the current corporate insurance programme, which commenced in January 2009, expire on 31 December 2015. Since they are not capable of being extended any further it has been necessary to commence a tender exercise and invite bids from the insurance market to compile a new programme. A tender exercise is currently underway and bids have been received from interested insurers which are now being analysed. The tender exercise has been jointly managed by KCC Procurement / Insurance and the appointed insurance broker Arthur J Gallagher.
6. The insurance market is hardening. Due to the Council's poor claims experience a substantial increase in premiums should be expected.
7. A report was submitted to the Policy and Resources Cabinet Committee on 10 September which obtained the necessary approval for John Simmonds, Deputy Leader and Cabinet Member for Finance and Procurement, to take a decision on the award of contracts during November 2015. Once a decision has been taken contracts will be awarded shortly afterwards so that policies are in place ready to start from 01 January 2016.

FUNDING OF INSURANCE PREMIUMS AND CLAIMS

8. Premiums and excess payments are met through the corporately managed Kent Insurance Fund to which all directorates and LEA schools contribute in accordance with their risk profile and claims experience. As at March 2015 the KIF had a fully funded committed balance of £16.47m to meet the adjusted values for outstanding liabilities.
9. The KIF is supported by the Insurance Reserve. As at March 2015 this stood at £8.43m and is held to protect the Council against future unexpected insurance costs that might arise such as those associated with the unexpected increase in the cost or volume of claims particularly where previous insurers have ceased trading.

INSURANCE CLAIMS

10. Below is a summary of activity relating to the four main insurance policies during 2014/15.

Employers Liability

11. The number of claims being received appears to be dropping. In previous years we could have expected to receive in the region of 40 claims per annum however, this figure appears to be reducing to less than 30. This decrease is thought to be due to the number of schools that have converted to academy status, the departure of Commercial Services and the enactment of the Enterprise & Regulatory Reform Act 2013. This Act is intended to provide greater protection for those employers who take their health and safety responsibilities seriously by tightening up on the legal threshold that has to be met in order to bring a claim.
12. No new claims of significant value have been received since April 2014. The highest value claim received is currently valued at only £35,000 which is inclusive of legal costs. The main causes of claims being received remains as slips/trips/falls and assault.
13. The overall outstanding balance on all Employers Liability claims that are still open across all years has reduced to a reserve of £1.22m (£763k KCC / £460k ZM) which reflects a reduction in the number of claims being made.

Public Liability

14. A total of 1892 claims have been recorded against the 2014/15 financial year. Of these, 90% were highway related.
15. Pothole claims accounted for almost 90% of all highway related claims in this particular financial year. Liability has been decided in respect of 99% of these claims with 90% having been rejected. To date £14,843 has been paid out for vehicle damage claims due to potholes. Unfortunately, two high value pothole related injury claims have been received which have a combined reserved value in excess of £3 million.
16. The majority of all claims received are less than £10k in value however, a number of what are known as 'large loss' claims' with a value of £50k+ can also be expected. There are currently 91 £50k+ open claims which have a total reserved value of £16.7m on top of the £7m already paid out.
17. Since April 2014 21 such claims have been received of which 14 are highway related. These claims alone have a collective reserved value of £6.7m of which £1m has been set against the Kent Insurance Fund and £5.7m has been reserved for by the Council's insurer.

The five highest value claims received result from:

- Motorcyclist losing control due to alleged carriageway defect
- Pedestrian tripping on alleged protruding water meter

- Alleged failure to effect repairs to a superannuation property
 - Alleged failures in process by a social worker
 - Alleged damage to utility apparatus following the collapse of a highway
18. There are in excess of 1100 claims currently being processed with an overall reserved value of £26.4m. Of this figure, £12.1m is reserved against the Kent Insurance Fund and £14.3m by insurers. Whilst most claims relate to events that occurred in the past five years there is a small number that could be described as historic. It should be noted that these figures should reduce as reserves include claims that will eventually be rejected.
19. As a result of the number of high value highway related claims Zurich Municipal Insurance has recently carried out an audit of the Council's management of this area of activity. Whilst their final report has still to be received it is understood that the insurer felt that the Council had developed and was working to good systems of practice and had simply been unlucky.

Property

20. During the 2014/15 financial year 200 claims were made against the property policy with an estimated cost of £487k. This represents a reduction of just under 50% in the number of claims being received and just over 50% in value when compared with the 2013/14 financial year. This reduction in claims is attributable to the mild weather during the winter period.

Motor

21. Due to a reduction in the number of vehicles being insured the claims made against the various motor policies have reduced. During 2013/14 a total of 358 claims were recorded however only 207 claims were recorded for 2014/15. Early indications are that the number of claims received for the 2015/16 financial year will result in a further reduction of around 20%.
22. Although the staff Lease Car Scheme was wound up in 2011 the last vehicle was not returned until May 2015. Whilst there were concerns that the Lease Car Fund set up to meet the cost of accident damage for this fleet might not meet its liabilities the Fund is on track to close with a very minor loss largely due to the significant administration costs levied by Commercial Services.

MUNICIPAL MUTUAL UNSURANCE

23. As previously reported the Municipal Mutual Insurance Company ceased writing business in 1992 and has ever since been operating in run-off. A

solvent run-off has not been possible and as a result what is known as the 'Scheme of Arrangement' has been triggered which involves the clawing back of monies from past members of the mutual to meet the outstanding future costs of claims. The Council has already paid £600k following a demand by the scheme administrator and there are now warnings that a further levy might be presented within the next few years.

24. This situation is not unique to KCC. Municipal Mutual Insurance insured the majority of local councils up to 1992 and all have received demands for payment relative to the value of claims settled by the insurer on their behalf.

INDEPENDENT INSURANCE LTD

25. The Council was insured with the above insurance company from 1992 to 1995 when it went into liquidation. Since then the Council has been paying claims that should have been met by the insurer. Details of all payments made have been lodged with the liquidators and a Scheme of Arrangement was agreed in July 2015 by PricewaterhouseCoopers with a view to reimbursing all creditors up to 15p in the pound owed. If successful, in excess of £60k might be recovered.

CHANGES TO THE PROCESSING TIMES AND COST OF CLAIMS

26. The implementation of the Jackson Reforms and Ministry of Justice claims portal in the summer of 2013 provided opportunities for KCC to make savings on third party legal costs for claims up to £25k. To achieve these savings it would be necessary to deliver decisions on liability within 30 – 40 days of receipt of a claim. The Insurance Section, along with its insurers, has met with the new processing times on all claims thereby maximising available savings.
27. Since the Reforms were introduced rejection rates have been maintained. It is also interesting to note that fewer litigated claims have been received which is in part thought to be due to a change in the way in which third-party claims are now funded. This trend mirrors that reported by other county councils.

INSURANCE BROKER

28. The contract with Arthur J Gallagher, which was due to end on 30 August 2015, has been extended for a final period of 22 months up to June 2017.

RECOMMENDATION

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

**Darryl Mattingly
Insurance Manager
(Ext. 416400)**

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

To: Governance and Audit Committee – 2 October 2015

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. The Council's Treasury Management Strategy for 2015-16 was approved by full Council on 12 February 2015.
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 produces 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 £386m, representing income received in advance of expenditure plus balances and reserves held. These balances are forecast to remain relatively stable over the coming months.
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.

8. The transposition of European Union directives into UK legislation now places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors such as Kent County Council through potential bail-in of unsecured bank deposits.
9. Security of capital has remained the Authority's main investment objective. Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Council's aim to further diversify into more secure and/or higher yielding asset classes as set out in its Treasury Management Strategy Statement for 2015/16.
10. During the 3 months to the end of June KCC made greater use of money market funds to support short term liquidity requirements and reduced the proportion of its surplus cash invested in unsecured bank deposits. By the end of the quarter some 32% of KCC's cash was invested in covered and corporate bonds as well as investments funds and equity which are not subject to bail in risk.
11. The UK Bank Rate has been maintained at 0.5% since March 2009. From April through June the interest rate earned on the invested cash was 0.74% compared to the average 7 day LIBID rate of 0.36%.

COUNTERPARTY UPDATE

12. With assistance from Arlingclose counterparty credit quality continues to be assessed and monitored.
13. All three credit ratings agencies (Moody's, S&P and Fitch) reviewed their ratings in the first quarter to reflect the loss of government support for most financial institutions and the potential for varying loss given defaults as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions on the KCC approved counterparty list have seen upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.
14. In August duration limits were increased for some UK and European banks, and building societies based on advice from Arlingclose. Those for Close Brothers, Coventry BS, Nationwide BS and Santander UK were increased to 6 months from 100 days and Bank of Scotland, HSBC Bank, Lloyds Bank and Svenska Handelsbanken increased to 13 months from 6 months. The limit for Barclays was unchanged while RBS / NatWest remained suspended from the list as their ratings continue to be below the Council's agreed threshold.

STATEMENT OF DEPOSITS

15. A statement of deposits as at 28 August is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

BORROWING

16. At 30 June 2015 the Authority held £1,009.08m of loans, an increase of £25m from the balance as at 31 March 2015, as part of its strategy for funding previous years' capital programmes.

17. The Authority's chief objective when borrowing continues to be to consider borrowing at advantageous points in interest rate cycles as well as striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
18. In April concerns rose regarding the likely outcome of the UK general election and possible impact on the UK financial market as well as uncertainty over the future for Greece in the EU. The decision was then made given the availability of advantageous rates from the PWLB for long term fixed rate maturity loans, to borrow £25m for 40 years from the PWLB at a fixed rate of 3.16%.
19. As a result the average interest rate payable on the Council's debt portfolio reduced slightly from 5.51% to 5.387%. KCC expects to repay £31m of maturing PWLB loans by 31 March 2016 and does not expect to undertake further borrowing during 2015–16.
20. Affordability and the "cost of carry" remain important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates remain lower than long-term rates it is more cost effective in the short-term for KCC to use internal resources instead.
21. The benefits of internal borrowing continue to be monitored regularly and the Council's treasury advisors, Arlingclose, assists the Council with the 'cost of carry' and breakeven analysis.

ICELAND DEPOSITS

22. On 26 August we received a further £741,000 from Heritable, bringing the Heritable recovery to 98%. The remaining dividend of 2p in the pound, circa £360,000, will be paid when a building defects issue is resolved. With regard to Landsbanki we have recovered 83% of the amount due with £3.2m remaining outstanding. The Landsbanki Winding Up Board is looking for ways of making this payment by the end of 2015. Total recoveries to date are £48.8m.

RECOMMENDATION

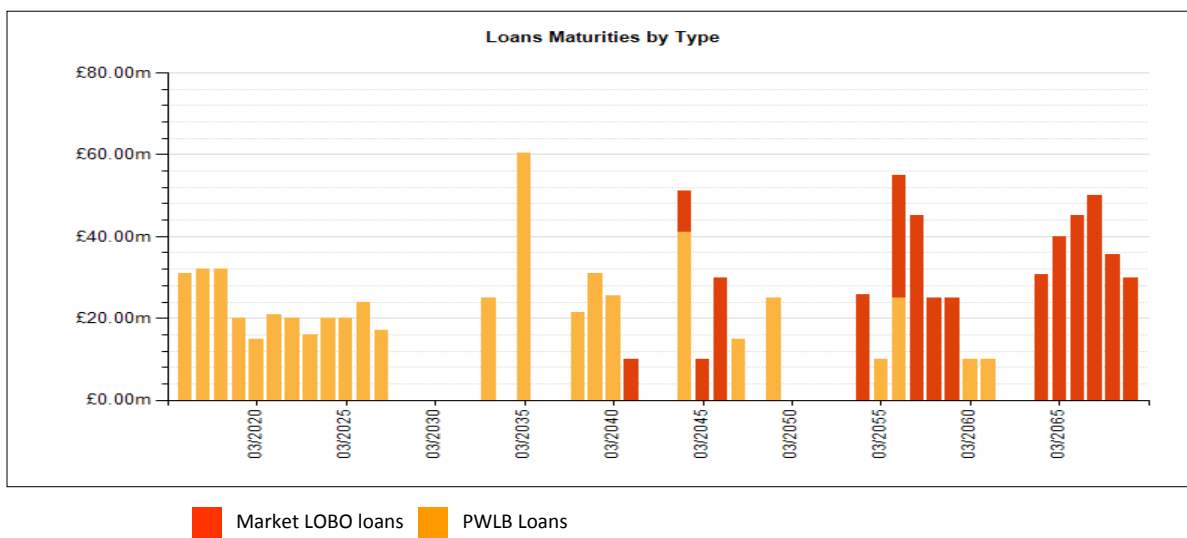
23. Members are asked to note this report for assurance.

Alison Mings
Treasury and Investments Manager
Ext: 03000 416488

Treasury Management Report for the month of June 2015

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 unchanged at £1,009m.

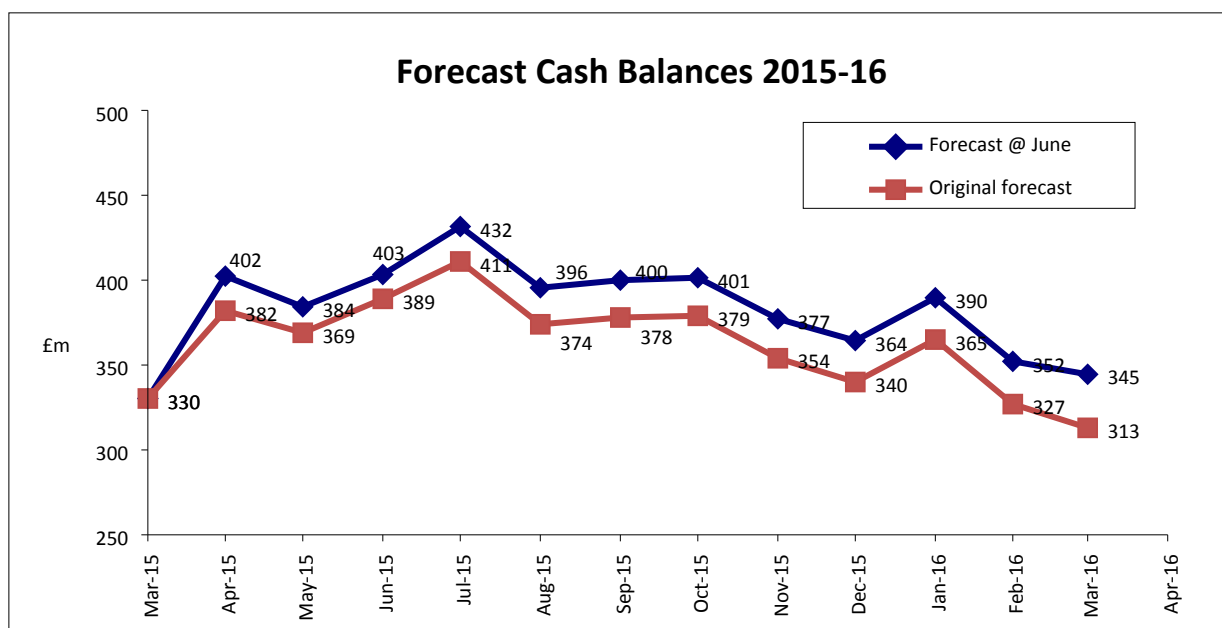


Total external debt managed by KCC includes £39.62m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of the Further Education Funding Council (£1.76m) and Magistrates Courts (£0.556m).

2. Investments

2.1 Cash Balances

During June the total value of cash under management rose by some £19m to £403m, £14m above the original forecast. Future cash balances are forecast as follows:



2.2 Type of investment at month end

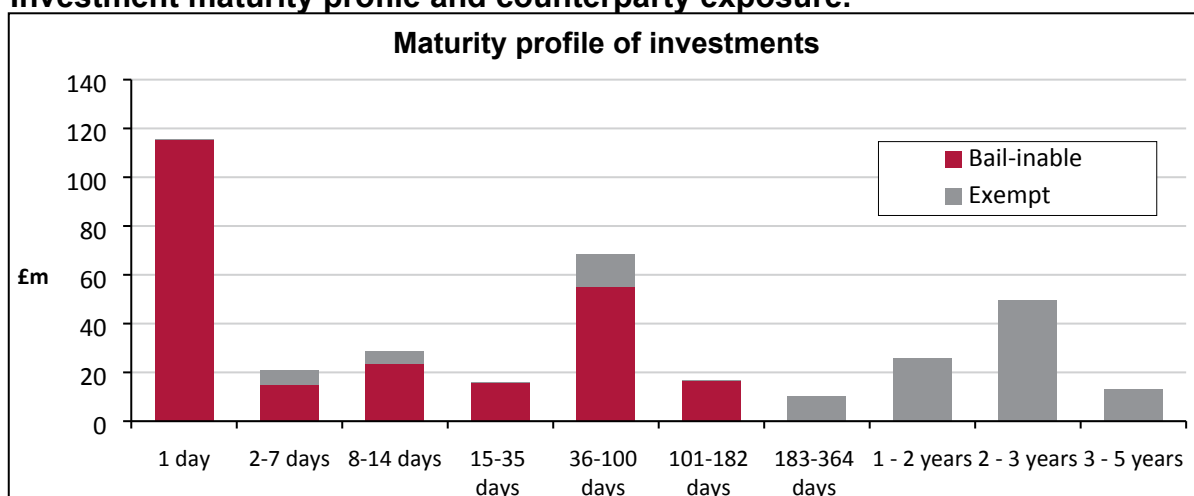
Type of Investment	Total	
	£m	%
Call Account	75.00	19
Money Market Fund	40.42	10
Certificate of Deposit	45.00	11
Fixed Deposit	103.70	26
Covered Bond	98.88	25
Corporate Bond	1.75	0
ISK held in Escrow	3.30	1
Icelandic Recoveries outstanding	4.00	1
Internally managed cash	372.05	93
External Investments	25.21	6
Equity	2.70	1
Total	397.26	100

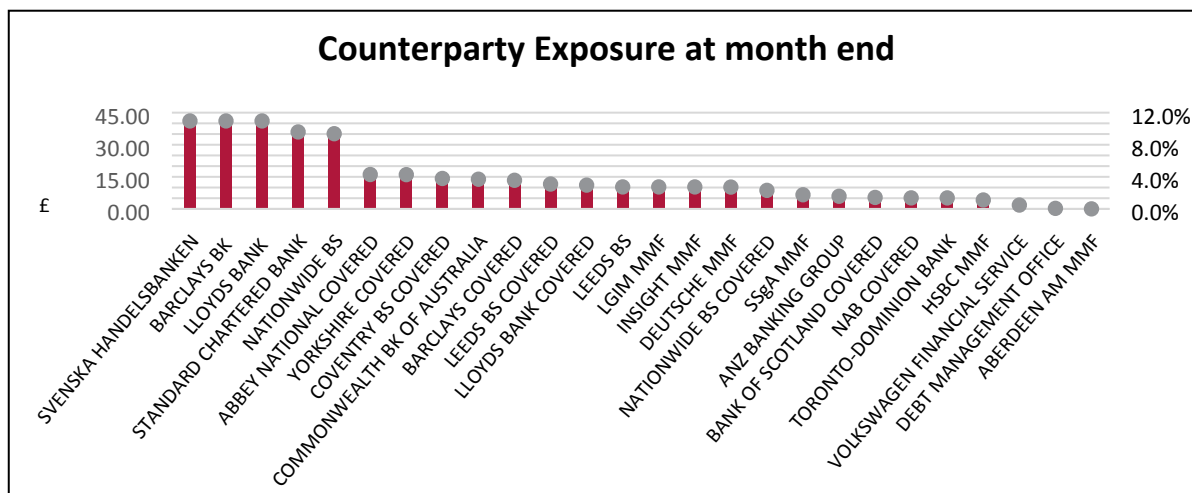
2.3 Internally managed cash

2.3.1 Average return on new investments

The average rate of interest on new investments made during the month was 0.6628% vs 7 day LIBID of 0.3637%. The rate of return on outstanding investments is 0.65%.

2.3.2 Investment maturity profile and counterparty exposure.





2.3.3 Credit Score matrix

	Credit Rating	Credit Risk Score
Value Weighted Average	AA-	3.81
Time Weighted Average	AAA	1.28

3. External Investments

	Book cost £000	Market Value at 30 June 2015 £000	Total annualised return to 30 June 2015
CCLA (note)	20,000	20,235	5.69%
Pyrford	5,000	4,974	3.49%

Note: includes £5m investment made 29 June

Alison Mings, 21 July 2015

Investments as at 28 August 2015

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Call Account	Barclays Bank	£5,000,000	n/a	0.35%
Call Account	Barclays FIBCA	£30,000,000	n/a	0.50%
	Total Barclays	£35,000,000		
Fixed Deposit	Lloyds Bank	£5,000,000	19/08/2016	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	26/02/2016	0.70%
Fixed Deposit	Lloyds Bank	£5,000,000	30/09/2015	0.57%
Fixed Deposit	Lloyds Bank	£5,000,000	24/05/2016	0.80%
Fixed Deposit	Lloyds Bank	£5,000,000	22/10/2015	0.57%
Fixed Deposit	Lloyds Bank	£5,000,000	08/08/2016	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	09/05/2016	0.80%
Fixed Deposit	Lloyds Bank	£5,000,000	03/09/2015	0.57%
	Total Lloyds Group	£40,000,000		
Certificate of Deposit	Standard Chartered Bank	£10,000,000	02/10/2015	0.68%
Certificate of Deposit	Standard Chartered Bank	£10,000,000	07/10/2015	0.72%
Certificate of Deposit	Standard Chartered Bank	£10,000,000	22/10/2015	0.72%
Certificate of Deposit	Standard Chartered Bank	£5,000,000	15/01/2016	0.72%
Certificate of Deposit	Standard Chartered Bank	£5,000,000	06/11/2015	0.72%
	Total Standard Chartered	£40,000,000		
Total UK Bank Deposits		£115,000,000		
Fixed Deposit	Nationwide Building Society	£5,800,000	05/10/2015	0.50%
Fixed Deposit	Nationwide Building Society	£18,000,000	18/12/2015	0.59%
	Total Nationwide BS	£23,800,000		
Total UK Building Society Deposits		£23,800,000		
Fixed Deposit	Commonwealth Bank of Australia	£6,500,000	07/10/2015	0.52%
Fixed Deposit	Australia and New Zealand Banking Group	£15,750,000	26/11/2015	0.55%
Total Australian Bank Deposits		£22,250,000		
Certificate of Deposit	Bank of Montreal	£5,000,000	22/01/2016	0.63%
Total Canadian Bank Deposits		£5,000,000		
Call Account	Handelsbanken	£40,000,000	n/a	0.40%
Total Swedish Bank Deposits		£40,000,000		
Money Market Fund	Deutsche Managed Sterling Fund	£9,988,654	n/a	0.38 (variable)
Money Market Fund	HSBC Global Liquidity Fund	£3,290,526	n/a	0.36 (variable)
Money Market Fund	Insight Sterling Liquidity Fund	£9,990,649	n/a	0.40 (variable)
Money Market Fund	LGIM Liquidity Fund	£9,992,782	n/a	0.44 (variable)
Money Market Fund	SSgA GBP Liquidity Fund	£9,989,325	n/a	0.38 (variable)
Money Market Fund	Aberdeen Sterling Liquidity Fund	£8,879,666	n/a	0.35 (variable)
Total Money Market Funds		£52,131,602		

Instrument Type	Principal Amount
Total Icelandic Recoveries outstanding	£7,352,991
Total ISK held in Escrow (est GBP)	-£3,278,427
Net Icelandic Recoveries outstanding	£4,074,564

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Net Yield	Maturity Date
Corporate FRN Bond	Volkswagen Financial Services	£1,750,589	0.863%	12/10/2015
Floating Rate Covered Bond	Yorkshire Building Society	£3,029,657	0.911%	23/03/2016
Floating Rate Covered Bond	Yorkshire Building Society	£5,054,132	0.911%	23/03/2016
Floating Rate Covered Bond	Yorkshire Building Society	£2,022,431	0.911%	23/03/2016
Floating Rate Covered Bond	National Australia Bank	£5,009,009	0.647%	12/08/2016
Fixed Rate Covered Bond	Bank of Scotland	£2,140,610	1.293%	08/11/2016
Fixed Rate Covered Bond	Bank of Scotland	£3,079,599	1.309%	08/11/2016
Floating Rate Covered Bond	Lloyds	£3,006,276	0.806%	14/01/2017
Floating Rate Covered Bond	Abbey National Treasury	£5,762,912	0.820%	20/01/2017
Floating Rate Covered Bond	Abbey National Treasury	£3,006,616	0.714%	20/01/2017
Floating Rate Covered Bond	Abbey National Treasury	£2,460,268	0.776%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£1,390,479	0.716%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£3,004,487	0.787%	29/05/2018
Floating Rate Covered Bond	Nationwide Building Society	£1,899,751	0.769%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£1,001,231	0.719%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£2,102,490	0.709%	17/07/2017
Floating Rate Covered Bond	Barclays Bank	£5,006,896	0.693%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£3,004,442	0.685%	15/09/2017
Floating Rate Covered Bond	Lloyds	£3,902,910	0.721%	19/01/2018
Floating Rate Covered Bond	Leeds Building Society	£2,503,095	0.784%	09/02/2018
Floating Rate Covered Bond	Barclays Bank	£5,003,820	0.721%	12/02/2018
Fixed Rate Covered Bond	Yorkshire Building Society	£2,160,067	1.981%	12/04/2018
Fixed Rate Covered	Yorkshire Building Society	£3,279,738	1.550%	12/04/2018

Bond				
Fixed Rate Covered Bond	Coventry Building Society	£3,233,355	1.933%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£5,420,183	1.703%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£2,180,528	1.520%	19/04/2018
Floating Rate Covered Bond	Coventry Building Society	£3,009,789	0.877%	17/03/2020
Floating Rate Covered Bond	Leeds Building Society	£2,503,143	0.784%	09/02/2018
Floating Rate Covered Bond	Nationwide Building Society	£3,431,050	0.740%	27/04/2018
Fixed Rate Covered Bond	Leeds Building Society	£2,168,991	2.016%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£1,640,010	1.187%	17/12/2018
Floating Rate Covered Bond	Lloyds	£1,405,501	0.758%	01/07/2019
Floating Rate Covered Bond	Leeds Building Society	£5,000,000	0.967%	01/10/2019
Total Bonds		£100,574,056		

Total Internally managed investments	£370,183,213
---------------------------------------------	---------------------

2. Externally Managed Investments

Investment Fund / Equity	Book cost
CCLA	£20,000,000
Pyrford	£5,000,000
Kent PFI (Holdings) Ltd	£2,135,741

Total External Investments	£27,135,741
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3. Total Investments

Total Investments	£397,318,954
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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 – 2 October 2015

Subject: **External Audit - Annual Audit Letter 2014/15**

Classification: Unrestricted

Summary: The Annual Audit Letter provides a summary of the most important findings from the external audit work in respect of the 2014/15 audit year.

FOR ASSURANCE

Introduction

1. The former 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 2014/15 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 2014/15 Audit Plan and includes:
 - The audit opinion and financial statements
 - Value for money
4. The Letter reaffirms the unqualified opinion on the 2014/15 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
Tel: (03000) 416554

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Annual Audit Letter for Kent County Council

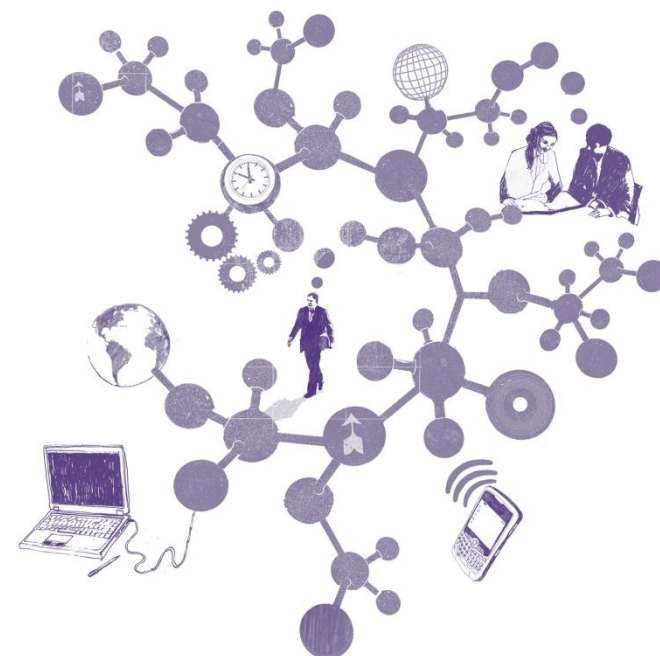
Year ended 31 March 2015

October 2015

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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 2015.

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 2015 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 and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion) Page 37	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 23 July 2015 to the Governance and Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"> • delays in the processing of schools payroll direct debits through the ledger <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 27 July 2015, 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>
Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 27 July 2015.</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 2015.</p>

Key messages continued

Whole of Government Accounts	We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is planned for September 2015 and the audit certificate will be issued after we have audited the WGA consolidation pack.
Audit fee	Our fee for 2014/15 was £207,900, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

Issue and recommendation	Priority	Management response/ responsible office/ due date
The schools payroll direct debits for February 2015 and March 2015 were not processed through the ledger on a timely basis. These receipts should be confirmed through the schools payroll bank reconciliation process and followed up if variances are identified on a monthly basis. A recommendation of a similar nature was made in 2013-14.	High	With immediate effect - BSC Professional Services Manager. Operational Service Manager – officer responsible

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	207,900	207,900
Total audit fees	207,900	207,900

Fees for other services

Service	Fees £
Audit of Initial teacher training claim	3,500
Compliance review of TIGER funding scheme in Dec 2014	12,000
Audit of Expansion East Kent RGF claim	3,250
Audit of Infrastructure RGF claim	950
Audit of TIGER claim	3,250

Reports issued

Report	Date issued
Audit Plan	April 2015
Audit Findings Report	July 2015
Certification Report	TBC
Annual Audit Letter	October 2015



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

To: Governance and Audit Committee – 2nd October 2015

Subject: **External Audit Update October 2015**

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 for 2015/16
 - Emerging issues and developments

Recommendation

3. Members are asked to note the report.

Robert Patterson
Head of Internal Audit (03000 416554)

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Governance and Audit Committee Update

Year ended 31 March 2015

October 2015

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Paul Hughes

Engagement Lead

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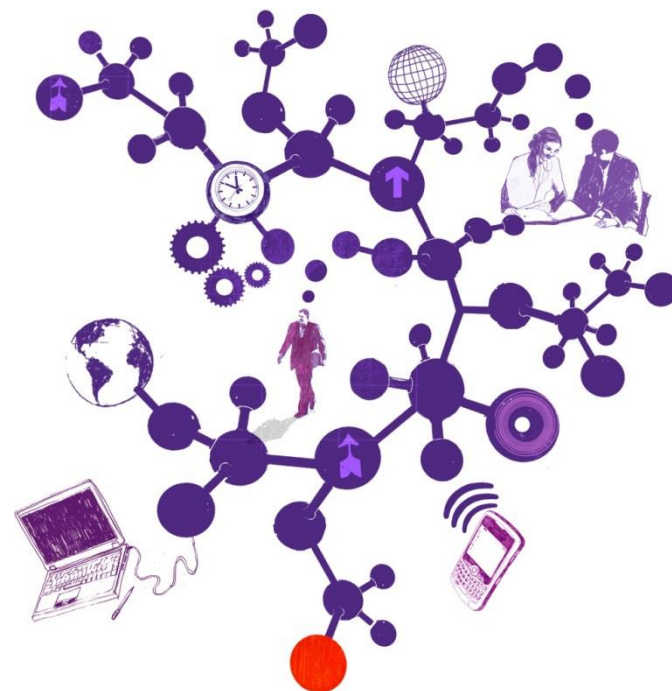
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Senior Manager

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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 and 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:

- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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 Audit Manager.

Progress at 16th September 2015

Work	Planned date	Complete?	Comments
2014-15 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 2014-15 financial statements.	April 2015	Yes	We agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts and presented them to committee in April 2015
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's 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 2015	Yes	We undertook early substantive testing to reduce the pressure on officers and audit at the accounts visit. We held quarterly meetings with Internal Audit to discuss potential issues and fraud investigations. There were no issues arising that impacted our opinion.
2014-15 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June and July 2015	Yes	We had monthly meetings with the Head of Financial Management and Chief Accountant during the year. We received the draft accounts on 12 June 2015 and undertook a four week audit visit from 15 June. We presented the Audit Findings Report to you at the July committee meeting. We issued an unqualified audit opinion on the Council's and Pension Fund accounts on 27 July 2015.

Progress at 16th September 2015

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 2015	No	We are currently planning the WGA audit and will complete the testing and certification by the 2 October 2015 deadline.

Emerging issues and developments

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Spreading their wings: Building a successful local authority trading company

Grant Thornton

Our report, 'spreading your wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

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



Welfare Reform Review: Easing the burden

Grant Thornton

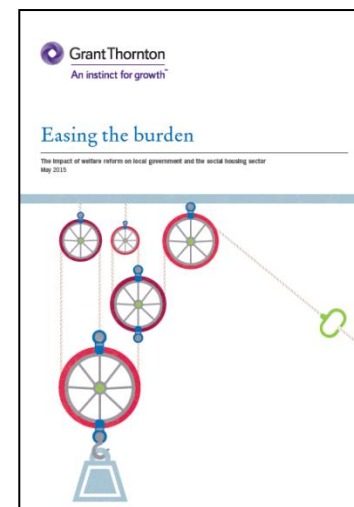
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

It focuses on the governance and management arrangements being put in place across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

The key messages include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
- Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
- The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.

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



The Queen's Speech 2015 – what it means for local government

Local government issues

The Queen's Speech was presented to Parliament on 27th May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

Challenge question

Have members:

- been briefed on the new government's proposed legislative programme and its likely impact on the Council?

Local Government New Burdens

Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5th June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

Challenge question

Have members been briefed on the key findings of the NAO's review of new burdens on local government?

English devolution – local solutions for a successful nation

Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.

Challenge question

Have members been briefed on the headline messages from the LGA's white paper on devolution?

Understanding your accounts – Member guidance

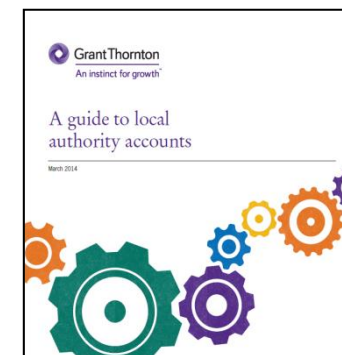
Accounting and audit issues

Local authority Governance and Audit Committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand.

In 2014 we prepared a guide for Members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help Members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position. Any new members to the Governance and Audit Committee may find this guide helpful.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



We have provided copies of the Guide to Local Authority accounts to the Council for distribution to the Governance and Audit Committee.



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By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 2nd October 2015

Subject: **Internal Audit and Counter Fraud Progress Report**

Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit and Counter Fraud activity for the 2015/16 financial year to date.

FOR ASSURANCE AND DECISION

Introduction

1. This report summarises:

- the key findings from completed Internal Audit reviews
- the key findings from completed counter fraud investigations
- progress against the 2015/16 Internal Audit Plan;
- achievement against the Internal Audit and Counter Fraud Key Performance Indicators
- work in progress and future plans and improvements for 2015/16, and
- approval for a revised anti-fraud and anti-corruption strategy

Overview of Progress

2. Appendix 1 details the outcome of Internal Audit and Counter Fraud work completed for the financial year to date. In total 18 audit reviews have been completed, including 14 substantive reviews. A further 2 substantive audits are at draft reporting stage and significant fieldwork is in progress for a further 16 audits. In relation to counter fraud work there have been 44 irregularities reported and investigated since the start of 2015/16 of which 17 have been concluded. Overall the unit has reviewed systems or activities with a combined spend of an estimated £900 million since the start of 2015/16.
3. Appendix 1 has also mapped the outcomes from this work against the more significant corporate risks where it is practical for internal audit work to provide assurance against the progression of the management and mitigation of such risks
4. There has been a marked increase in special investigations for the counter fraud team and in addition work has continued on the implementation of the pan Kent local authority fraud intelligence network (KIN) including formal procurement and commissioning of the key software. This initiative is due to go live in November 2015.
5. Progress against the Audit Plan for 2015/16 is nearly a third complete as at end of August 2015; this is broadly on target to achieve the Audit Plan key performance targets by 31st March.

6. Progress against targets for other agreed Internal Audit Key Performance Indicators (KPIs) for the 2015/16 year are also detailed within Appendix 1.

Implications for Governance

7. Summaries of findings from completed work since April 2015 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 together with four levels of prospects for further improvement representing a projected 'direction of travel'. Definitions are included within the attached report.
8. Although at this stage drawn from a relatively small sample of audits, the outcomes to date have been positive. In particular:
- 79% of systems or functions have been judged with a substantive assurance
 - A continuing pattern of general robustness of key financial systems
 - Positive assurance over safeguarding controls in children's services
 - General sustained improvements evidenced from follow up work
9. From our coverage we have concluded there is continuing evidence to substantiate that the County Council has adequate and effective controls and governance processes as well as systems to deter incidences of substantive fraud and irregularity.

Further improvements

10. Our initiative to use internal audit as a management development vehicle through the use of peer auditors has been particularly successful. Following our advertisement for volunteer peer auditors from middle management grades across the County Council we were oversubscribed and following selection procedures we now have 11 peer auditors allocated to 10 audits over the remainder of the year.

Anti-Fraud and Anti-Corruption Strategy

11. We have completed our annual review of the Council's Anti-Fraud and Corruption Strategy and a number of amendments have been recommended.
12. In these circumstances it is appropriate for the strategy to be presented to the Committee for review and agreement. A copy of the Anti-Fraud and Corruption Strategy (with tracked revisions) is attached at Appendix C for the Committee to approve.

Recommendations

13. Members are asked to note:
- Progress and outcomes against the 2015/16 Audit Plan and proposed amendments.
 - progress and outcomes in relation to Counter Fraud activity
 - the assurances provided in relation to the Council's control and risk environment as a result of the outcome of Internal Audit and Counter Fraud work completed to date
14. Members are asked to approve revisions to the Council's anti-fraud and anti-corruption strategy

Appendices

Appendix 1 Internal Audit Progress Report January 2015

**Robert Patterson
Head of Internal Audit**

(03000 416554)



Kent County Council

Internal Audit and Counter Fraud Progress Report

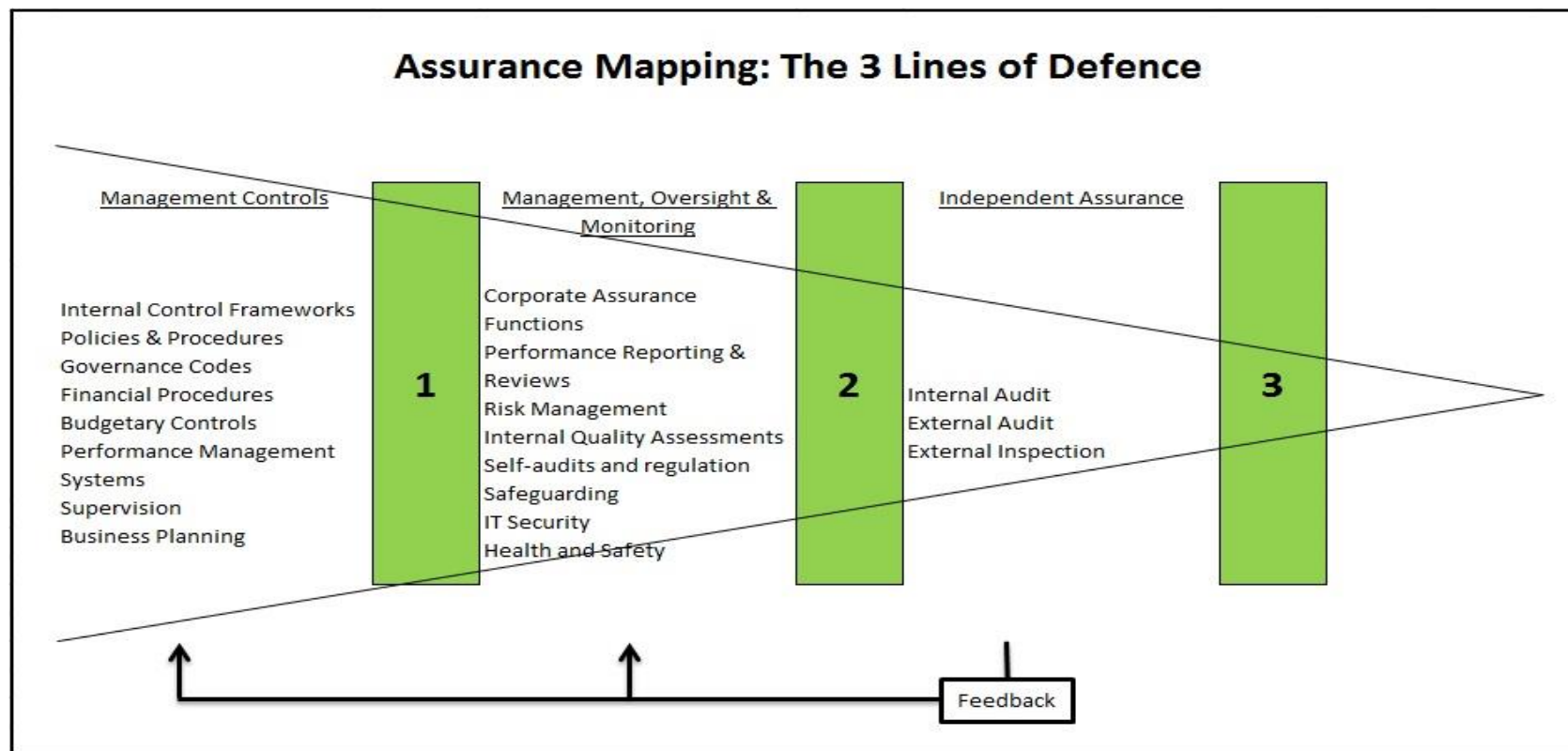
October 2015

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1 Introduction and Purpose

- 1.1. This report details cumulative internal audit and counter fraud outcomes for 2015/16 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since April 2015. It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.
- 1.2. As a reminder, internal audit is the 'third line of defence' in Kent County Council's governance, as per the table below:



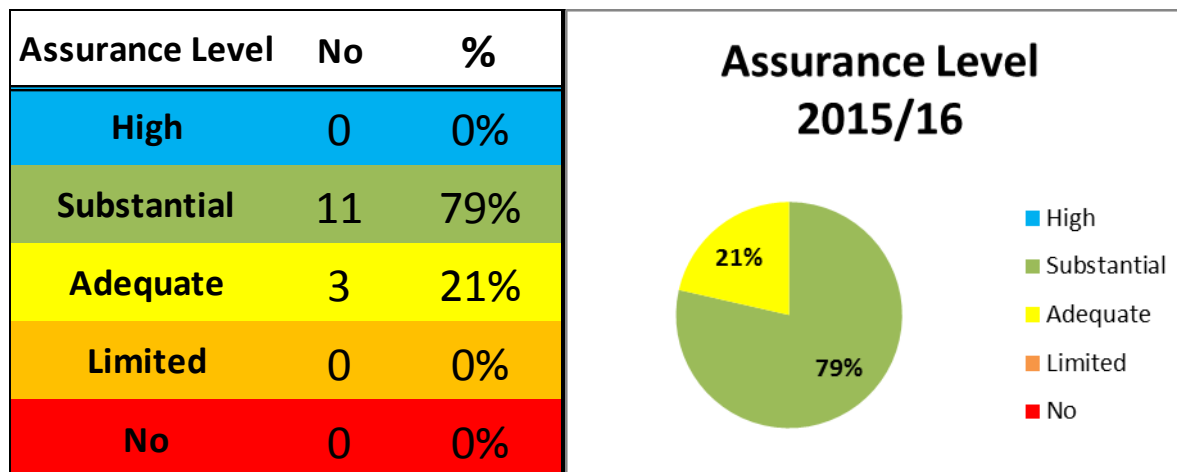
- 1.3. To date we have completed 18 internal audits (including 4 establishment visits) and 17 counter fraud investigations, the majority of which are resourced and driven from the internal audit plan (previously reviewed by this Committee) and are selected on the basis of providing an independent and objective opinion on the adequacy of the Council's control environment. Overall we have examined an estimated £900 million of KCC turnover to date.

- 1.4. A further 18 audits and 3 counter fraud proactive projects are currently in progress, and a further 35 counter fraud investigations remain ongoing (includes 8 from 2014/15).
- 1.5. In this report we have highlighted key outcomes arising from our work together with the associated assurance levels. In section 3 we also demonstrate where these findings provide appropriate assurance against key corporate risks or significant systems.
- 1.6. We continue to undertake selected follow up work and in particular during this period we have reviewed progress in relation to the foster care service, client financial affairs and payroll. As previously agreed we will undertake a fundamental follow up review of all outstanding actions from previous audits for the January 2016 meeting.
- 1.7. Internal audit also remains involved in monitoring the works in progress of selected significant change programmes and projects so as to provide timely pre-event challenge during the establishment of new control frameworks.

2 Overview

Internal Audit

2.1. Table 1 maps the assurance levels from the 14 substantive internal audits (i.e., excluding establishment visits) undertaken to date. This results in an overall distribution of:



A breakdown of each individual audit assurance level can be found in Appendix A

2.2. Particular strengths include:

- 79% of systems or functions have been judged with substantial assurance
- To date there have been no internal audits with a resultant assurance level lower than 'adequate'
- A continuing pattern of general robustness of key financial systems audited
- Positive assurance over the key non-financial safeguarding controls in Children's Services
- General sustained improvements evidenced from follow up work, including improvements in foster care controls

2.3. Areas for further improvement relate to :

- The continuing need to learn the lessons from transformational change
- The need for the consistent application of financial and non-financial controls in establishments

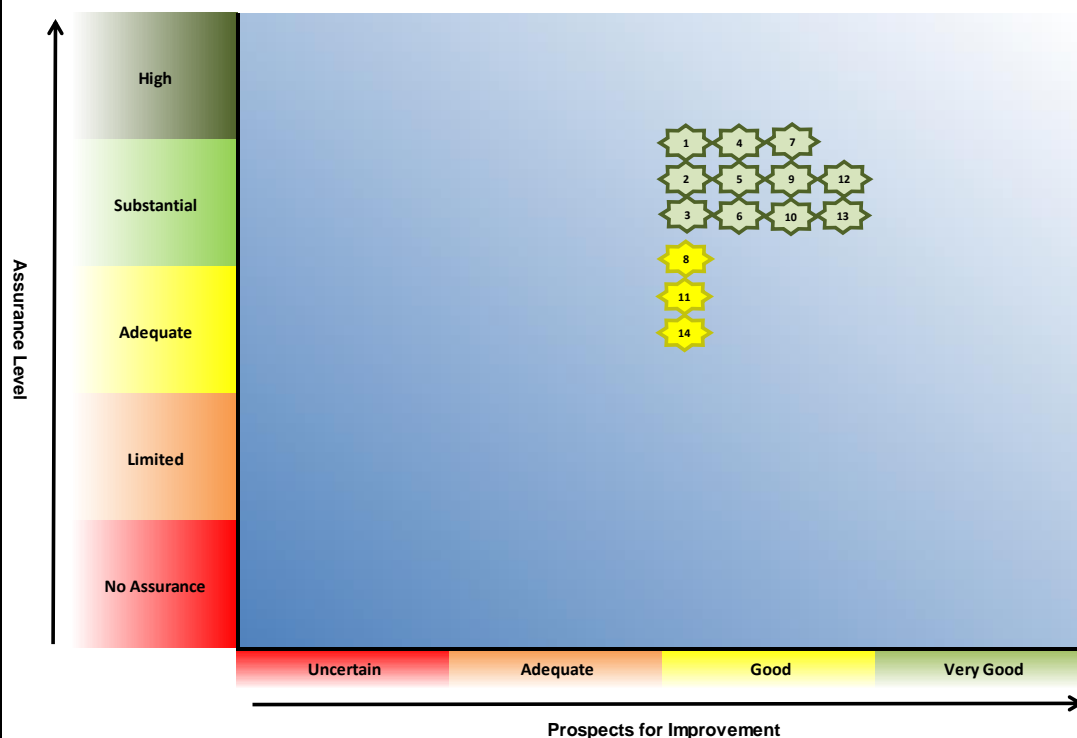
Counter Fraud

- 2.4. The counter fraud function has provided particularly positive outcomes as detailed on later pages.
- 2.5. Although there have been no material incidences of fraud or corruption reported or uncovered, there has been a noticeable increase in special investigations since April, particularly within schools, grants related to external bodies and trading activities. A number of these investigations are still in progress but are inevitably resource intensive.
- 2.6. In relation to the DCLG funded Kent Intelligence Network project, software procurement for data matching exercises have taken place during the summer and it is now targeted to start initial matching with partners from November 2015.
- 2.7. It has also been agreed that the Counter Fraud function will also be independently evaluating the business cases put forward and monitoring the outcomes and yields from District Council's applying for County Council funding to further tackle fraud and error in Council Tax and Business Rates discounts and exemptions.

Overview Assurance

- 2.8. The breadth of coverage and outcomes from our work to date have provided sufficient evidence to support an interim opinion that Kent County Council continues to have:
 - Adequate and effective financial and non-financial controls
 - Adequate and effective governance processes
 - Adequate and effective processes to deter incidences of substantive fraud and irregularity
- 2.9. Management have developed appropriate action plans in response to all the high priority issues raised from our audits and counter fraud work.

2015/16 Audit Assurance Levels and Prospects for Improvement of Audits



No	Audit	Judgement	Prospects for Improvement
1	Community, Learning and Skills	Substantial	Good
2	Capital Projects - Schools Build	Substantial	Good
3	Transparency Code Compliance	Substantial	Good
4	Pensions Payroll	Substantial	Good
5	IT Oracle	Substantial	Good
6	Business Continuity Planning	Substantial	Good
7	KCC Payroll - Follow up	Substantial	Good
8	Debt Recovery	Adequate	Good
9	Learning and Development	Substantial	Good
10	Safeguarding	Substantial	Good
11	Foster Care (Follow up)	Adequate	Good
12	Household Waste & Recycling Contract Management	Substantial	Good
13	Client Financial Affairs (Follow up)	Substantial	Good
14	Home Care Contract	Adequate	Good

Total Turnover Audited (£)	£900,000,000
----------------------------	--------------

Assurance Level	No	%
High	0	0%
Substantial	11	79%
Adequate	3	21%
Limited	0	0%
No	0	0%

Assurance Level 2015/16

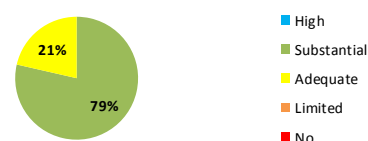


Table 1

3 Mapping Audit (and Counter Fraud) outcomes against corporate risks.

- 3.1. Appendix A provides detailed summaries on the outcomes from internal audit work completed since April, but it is important to provide an overview of audit and related counter fraud outcomes against corporate risks, mapping cumulative audit outcomes for the year to date.

Future operating environments – in particular Change Management and Governance of Change

- 3.2. During the year to date we have reviewed the following areas that have a common theme connected to the management of change.

	Assurance Level	Prospects for Improvement	Issues Raised	
Home Care contract	Adequate	Good	High: 1 Medium: 0	All accepted

- Page 69
- 3.3. The review of the transformational changes within Home Care was found to be generally positive with improvements in the quality of providers and with 90% of users clustered under contracts with reduced travel time and costs. However there has been no reconciliation between projected and actual savings although it appears such savings, whilst substantive, are 30% less than originally estimated. The Directorate has commissioned a post implementation review to foster learning.
- 3.4. We are currently finalising a review of the partnership contracts with consultants and organisations involved in assisting strategic transformation.
- 3.5. We have also brought together the learning from our first 4 reviews of the outcomes from Phase 1 of the transformation programme to present a report to Transformation Advisory Group (TAG).
- 3.6. In addition to the above internal audit are also involved in change programmes by making input towards, or as part of the following:
- Advice to personnel developing shadow LATCo or equivalent models
 - The 0-25 Unified Portfolio Financial Monitoring Group (FMG)
 - Adults FMG
 - Input into checkpoint reviews

- 3.7. Clearly our role in these groups is to provide timely 'pre event challenge' in the formation of controls in the roll out of these change and improvement programmes.

Data and Information Management

- 3.8. Assurance over the integrity and reliability of the Council's information systems has been provided by audits of :

	Assurance level	Prospects for Improvement	Issues Raised	
IT Oracle	Substantial	Good	High: 0 Medium: 3	Accepted
Business Continuity Planning	Substantial	Good	High: 1 Medium:4	Accepted

- 3.9. The judgements from both of our IT related reviews have been positive. Oracle applications drive general ledger, accounts payable / receivable, payroll and human resources systems. Overall, the controls over user access, maintenance, data processing, backup, recovery and governance were found to be strong.
- 3.10. The review of wider Business Continuity Planning was generally positive, particularly when judged against the resources and capacity available. There was a communicated policy in place, corporate working and sharing of good practice and with a number of robust mature Divisional and service BCP's. There was a need however for the corporate BCP to be approved and communicated, to ensure individual plans are regularly reviewed, updated and tested and that a number of critical service level BCP's still require further development.

Safeguarding

- 3.11. Safeguarding of vulnerable children and adults is a critical risk for the Council. We have undertaken one targeted piece of work and two follow up related to this area and with the following outcomes:

	Assurance level	Prospects for Improvement	Issues Raised	
Safeguarding in Children's Services	Substantial	Good	High: 1 Medium: 7	Accepted
Foster Care Follow Up	Adequate	Good	N/A	Good progress being made
Client Financial Affairs (follow up)	Substantial	Good	High: 0 Medium: 2	Accepted

- Page 71
- 3.12. We have undertaken a substantive review of safeguarding controls within Specialist Children's Services incorporating the safeguarding team, resultant case file reviews and missing children procedures. Overall the outcomes have been positive with quality assurance work clearly based on risk and being well recorded, substantive with good performance information. In addition the SCS safeguarding team embraces a culture of scrutiny, challenge and continual improvement. We identified issues related to Improvements in practice in areas such as follow ups and overarching reporting.
- 3.13. In addition we have undertaken a follow up of issues emanating from our foster care audit undertaken in early 2015. From our testing it is evident that improvements are being made and that current actions and initiatives should ensure that this positive direction of travel continues. There are still a small number of critical issues that remain to be rectified, particularly around training of foster carers and consulting the LADO on reporting of allegations.
- 3.14. Our follow up on client financial affairs (previously judged as adequate) showed there has been a clear improvement in controls in relation to reconciliation of client bank accounts together with authorisation and monitoring of payments. .

Access to resources to aid economic growth and enabling infrastructure

- 3.15. We have not yet undertaken direct work related to this risk but an audit on RGF funding in relation to monitoring controls will commenced in late September.

Governance and Internal Control - critical systems and services

- 3.16. As would be expected from an internal audit function, a considerable proportion of our work is centred on reviews of core critical financial and corporate systems:

	Assurance level	Prospects for Improvement	Issues Raised	
Pensions / Payroll	Substantial	Good	High: 1 Medium: 4	Accepted
KCC Payroll – follow up	Substantial	Good	High: 0 Medium: 0	Accepted
Debt Recovery	Adequate	Good	High: 1 Medium: 3	Accepted
Learning and Development	Substantial	Good	High: 0 Medium: 1	Accepted

- 3.17. In general these assurance levels point to the robustness of underlying financial and corporate systems.
- 3.18. The Pensions Payroll Team (within the Business Service Centre) is responsible for setting up, amending and ceasing payments acting on instructions from the Kent Pension team. Overall we found that responsiveness and customer care with associated controls was good but with minor amendments and changes to system access required.
- 3.19. The payroll audit follow up was positive with previously agreed actions implemented resulting in an overall strengthening of internal controls.
- 3.20. Testing of debt recovery highlighted it is a manual process which is not integrated into the Council's finance systems. This is the root cause for the efficiency issues and delays in follow up and recovery of debts.

- 3.21. The outcomes from the audit of Learning and Development were positive with robust processes for approving and monitoring training with a multi supplier framework developed for sourcing such training.

Better Care Fund

- 3.22. We will be reviewing Better Care funding during October including a review of allocations to related KCC services from such resources.

Procurement and Contract Management

- 3.23. The effective management of procurement and commissioning is critical to the Council. We have undertaken the following audit:

	Assurance level	Prospects for Improvement	Issues Raised	
Household waste and re-cycling contract management	Substantial	Good	High: 0 Medium: 3	Accepted

- 3.24. The above contract displayed enhanced management and monitoring arrangements based on risk. Bespoke systems have been developed with elements of effective performance monitoring of the contractor. There was however a need to document the new systems, formalise site inspections and implement deductions relating to site cleanliness.

4. Other Audit Work

4.1. A further 3 pieces of work have been undertaken with the following outcomes:

	Assurance level	Prospects for Improvement	Issues Raised	
Community, Learning and Skills	Substantial	Good	High: 0 Medium:3	Accepted
Transparency Code - Compliance	Substantial	Good	High: 0 Medium:3	Accepted
School Capital Project Delivery	Substantial	Good	High: 0 Medium:1	Accepted

- 4.2. Our review of compliance to the new Transparency Code for Council information found full compliance for three of the 10 stipulated information areas with partial compliance for the remainder and with no significant breaches. Land and building data which demonstrated some of the more significant shortfalls is due for rectification in September 2015. Overall the Council is striving to comply with recommended as well as mandatory information within the Code, demonstrating a willingness to be open and transparent where possible and practical.
- 4.3. The school capital review examined four different projects totalling £313 million. Overall controls were found to be good through the life cycles of these projects.

Establishment Visits

4.4. During the past 5 months we have concluded audits of 4 establishments with the following outcomes:

	Assurance level	Directorate
Shorne Woods Country Park	Adequate	GET
Kiln Court	Adequate (Draft)	SC
Blackburn Lodge	Adequate (Draft)	SC
Wayfarers	Adequate (Draft)	SC

4.5. These establishment visits, a number incorporating the new protocols of minimal / no notice, are part of three themes around Country Parks, Homes for Older People and Youth Services. Overall the level of control across the establishments is adequate. General trends relate to:

- Assets – adequately recording, reconciling and security marking assets remain a general weakness
- Training – inconsistencies in training of staff on what is considered to be essential training e.g. data protection, information governance, equality and diversity and Safeguarding continues to be a general weakness in SC establishments
- Personal Property Account – controls around accurately recording and reconciling spend is below standard in Care Homes
- Medication Audit Reviews – weekly audits were either inconsistent or not being completed at all sites
- Delivery notes – evidence that deliveries are checked for quantity and quality is not always maintained
- Risk assessments – the quality varied, with risk assessments not being completed in all instances or being out of date

4.6. In addition we have undertaken training sessions in association with care home management to raise awareness of maintaining key local controls in such establishments.

Other Audit Activity

- 4.7. We continue to diversify our work by offering a proportion of our services to other public sector related or associated bodies, including
- A 'Group Audit' activity to Kent Commercial Services
 - Appointed auditor to 13 Parish Council's
 - Internal audit of Kent and Essex Inshore Fisheries and Conservation Authority
 - Internal audit of Kent and Medway Fire and Rescue Service
 - Management of the audit and fraud service at Tonbridge and Malling Borough Council
 - A current audit of financial systems for 'Visit Kent'

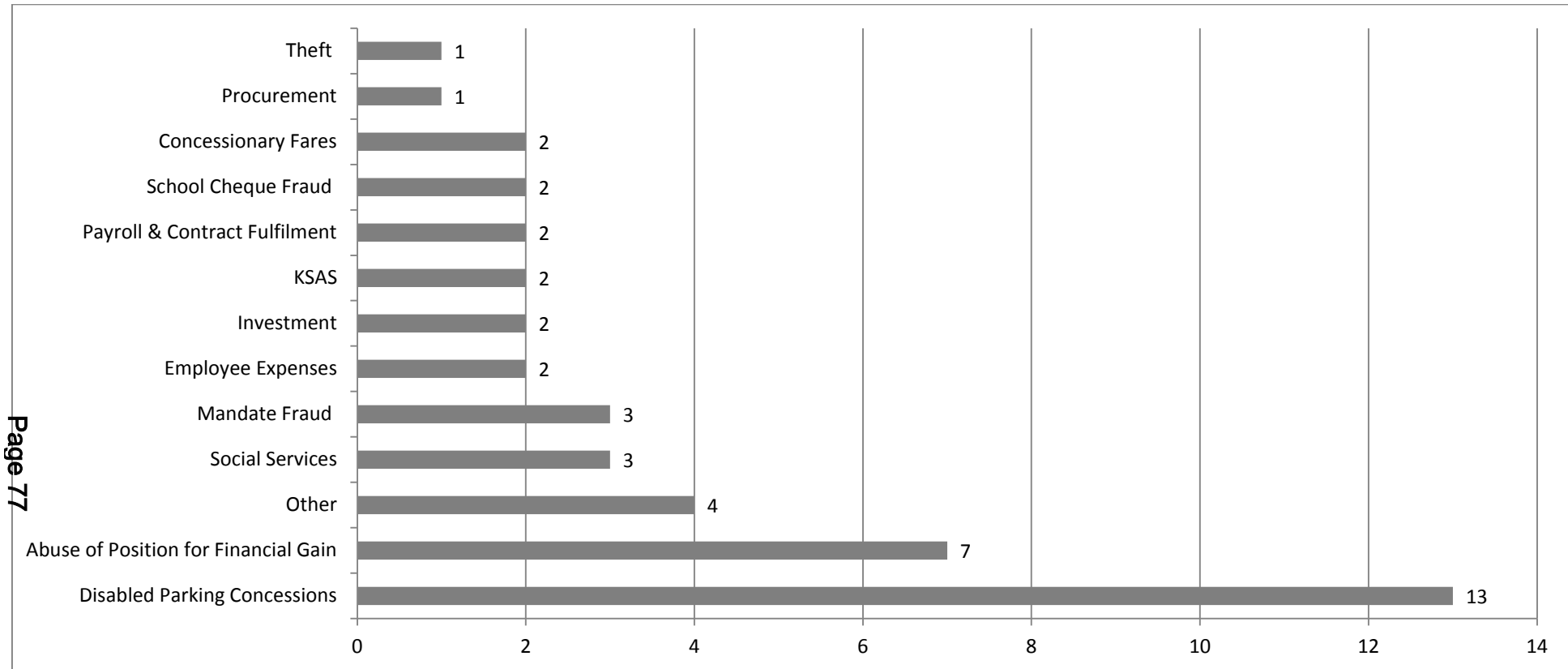
5. Counter Fraud and Corruption Fraud and Irregularities

- 5.1. Tables CF1 to CF4 summarises current works in progress and the outcomes of concluded irregularities.
- 5.2. Appendix B details the more notable fraud and irregularity cases we have investigated and brought to a conclusion.
- 5.3. The most common type of fraud recorded currently relates to Disabled Parking Concessions (Blue Badges). This increase has occurred because we have been supporting district councils in tackling Blue Badge misuse by instigating targeted enforcement activity. This activity has also impacted on the most common source of referral (outside agencies) and the number of referrals recorded against Social Care, who have overall responsibility for the Blue Badge Scheme in Kent. Numerous referrals are still being received from staff which is indicative of a good level of fraud awareness across KCC.

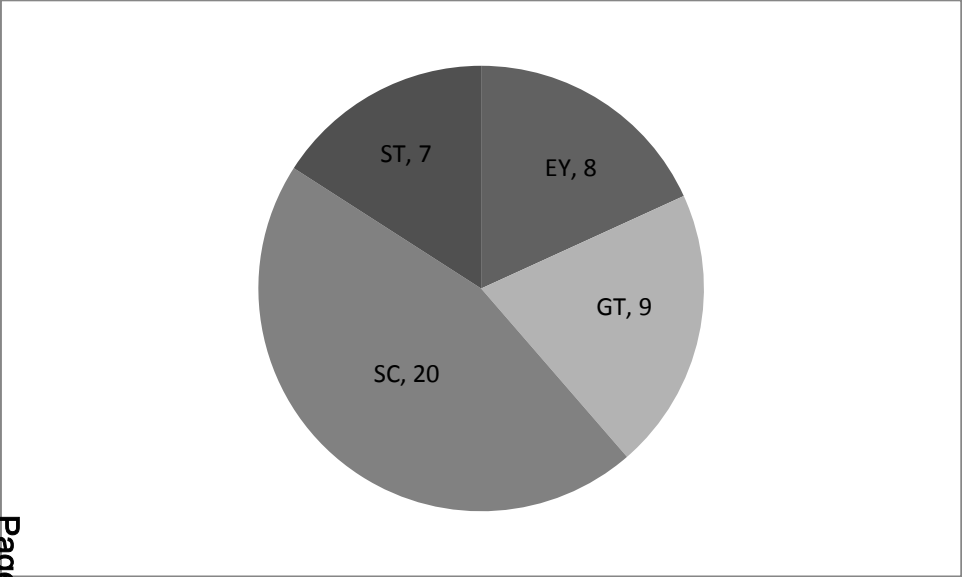
CF1 - Summary of Financial Irregularity Activity 2015/16

	No. of Irregularities
Brought forward at 1 April 2015	18
New irregularities recorded in period	44
Concluded in period	27
Carried forward at 11 September 2015	35

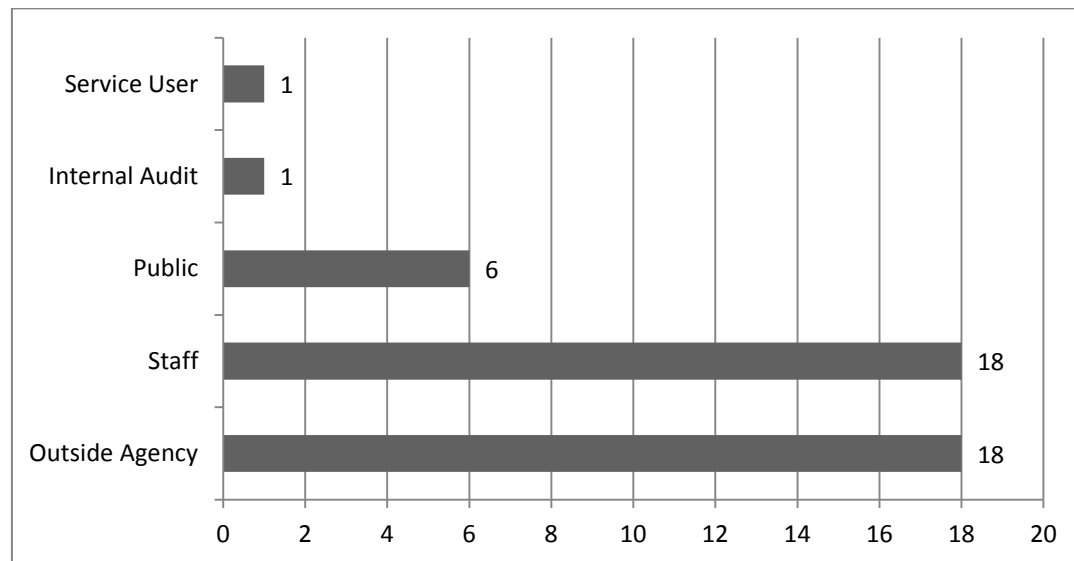
CF2 – Irregularities by Type



CF3 - Irregularities by Directorate



CF4 – Irregularities by Source



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Anti-Fraud and Anti-Corruption Strategy

- 5.4. We have completed our annual review of the Council's Anti-Fraud and Corruption Strategy and a number of amendments have been recommended which can be summarised as follows:
- The fraud response plan has been removed from the strategy as the response plan is an operational procedure and not a policy stance.
 - Consolidated the Council's various commitments to reduce fraud into a policy statement at the beginning of the strategy.
 - Clarified and moved the definition of fraud to the beginning of the strategy so that the reader of the document more quickly understands what activity the council recognises as fraud.
 - Renamed the 'Culture' section to 'Standards' and amended the standards to align with the 7 principles of public life.
 - Signposted the reader to further reading.

- 5.5. It is appropriate for the strategy to be presented to the Committee for review and agreement. A copy of the Anti-Fraud and Corruption Strategy (with tracked revisions) is attached at Appendix C for the Committee to approve.

Blue Badges

- 5.6. In conjunction with Maidstone Borough Council we undertook our first Blue Badge enforcement day which was designed to reduce incorrect and fraudulent use of the Blue Badge scheme. Throughout the day we spoke with 31 drivers, the vast majority were using the Blue Badge correctly. The misuse we did identify included using a disabled bay to pick someone up who did not have a badge, displaying another person's badge when the badge holder was not present, displaying another person's badge to collect them at a later point and parking in a prohibited loading bay. As well as talking to people about using the badge correctly, a number of expired badges were removed from circulation where the legitimate badge holder had kept hold of them following the issuing of a new badge. The response from the public was positive. Further enforcement days will be held in the County over the next few months.
- 6.1. It will be noted that there have been three formal follow up audits over the period under review (foster care, client financial affairs and payroll), all of which show improvements on previous assessments.
- 6.2. As previously agreed we will undertake a wholesale review on the progress on the implementation of all outstanding agreed audit recommendations and issues during the autumn for reporting at the January 2015 G&AC.

7 Internal Audit and Counter Fraud Performance

7.2. Performance against our targets to the end of August 2015 are shown below:

Performance Indicator	Target	Actual
Outputs		
100% of Priority 1 audits completed (by year end)	34%	27%
50% of Priority 2 audits completed	17%	19%
Time from start of fieldwork to draft report to be no more than 40 days	100%	78%
No of fraudulent incidents / irregularities recorded	N/A	44
Outcomes		
% of high priority / risk issues agreed	N/A	100%
% of high priority / risk issues implemented	N/A	Report January
% of all other issues agreed	N/A	90%
% of all other issues implemented	N/A	Report January
Client satisfaction	90%	89%
Total Number of occasions in which a) Fraud and b) B) irregularity were identified		12 5
Total monetary value of (a) Fraud (b) Irregularity detected		£25,618 0
Total monetary value of (a) Fraud (b) Irregularity recovered		£22,953 £0

7.3. In general the output outputs are in line with our plans and the level of completion of audits is projected to deliver the audit and counter fraud plan outcomes and targets by the end of 2015/16.

8 Internal Audit and Counter Fraud Resources

- 8.1. Staff recruitment and retention has stabilised during this period with only one resignation. A consequential restructure has resulted in a consolidation and parity in middle audit management (Principal Auditor) grades together with a small saving on the budget.
- 8.2. Our advertisement across KCC middle management for peer auditors as part of a management development role for internal audit as well as bolstering resources has been extremely successful and we are currently inducting the 11 peers that have been successful in their applications. They will be assigned to 10 audits over the remainder of the year.

9 Work in progress and future planned coverage

- 9.1 Appendix D details progression against the agreed plan coverage and substantiates the estimation that we are on target to achieve our planned coverage.
- 9.2 For the next quarter of the year we have a number of substantive audits to complete including
 - Strategic Transformation Partnership Contracts
 - RGF Monitoring
 - Recruitment controls and DBS checks
 - Better Care Funding
 - LAC – Children’s Finances
 - Mental Health services
 - Disabled Children’s Services
 - OP Nursing and residential contract re-let

10 In Conclusion

- 10.2 We are satisfied that over the past 6 months sufficient internal audit and counter fraud work has been undertaken to allow us to draw a positive conclusion as to the overall adequacy and effectiveness of KCC’s standards of control, governance and risk management.

10.3 In addition line management have taken, or have planned, appropriate action to implement our issues and recommendations.

10.4 We believe we continue to offer added value to the organisation as well as providing independent assurance during a time of considerable change.

Appendix A - Summary of individual 2015/16 Internal Audits issued April 2015 - September 2015

Community, Learning and Skills

Audit Opinion	Substantial
Prospects for Improvement	Good

To provide assurance that the key financial control risks are being adequately managed. In particular the review will consider the recommendations made in relation to financial controls as a result of previous audits.

Strengths

- Setting up of standing orders is monitored, chase letters sent and action taken to ensure payment
- Claims for Discretionary Learner Support (DLS) funding are authorised appropriately and supporting documentation retained
- Returns to funding authorities are accurate
- Terms and Conditions are signed for room lettings before invoices are raised
- There is a process in place to verify all cash income with amounts banked
- Department debt is now tracked and regularly reported by age of debt so it can be reviewed

Areas for Improvement

- Date stamping of supporting documents and invoices are not being raised in a timely manner
- The Sale of Arts and craft equipment in Adult Education Centres lacks sufficient controls regarding stock and money taken from learners
- The insurance limit for cash held in Centres is regularly exceeded
- Monthly reconciliations are not carried out on cash when no spend declared

There are Good prospects for improvement, because:

- Substantial improvements have been made since the last audit
- There is a positive attitude amongst management and staff encountered during the audit
- Acceptance of issues raised from the audit, with a prompt management response

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk			n/a
Medium Risk	3	3	n/a
Low Risk	2	2	n/a

Opinion	Substantial
Prospects for improvement	Good

The audit reviewed four different school capital projects involving different contractors, choosing a mix of different programmes of differing values all of which were either finished or coming to an end.

Strengths:

- Regular meetings were being held with the contractors and site meetings and inspections were also completed on a regular basis.
- Extensions of time were requested and approved in the appropriate way.
- The projects were regularly assessed by consultants to ensure that the Council was only invoiced for completed work.
- Adequate performance bonds were in place for all projects with the exception of John Wallis, where a Performance Bond is not required due to the contracting process.
- The Capital Finance team regularly liaise with the relevant project manager or budget manager for financial and delivery information.
- Monthly and final certificates were provided by the consultants and payments made in line with contract and milestone certificates

Areas for Improvement:

- Project risk registers were completed but not always updated, meaning that risk monitoring was not clearly evidenced
- There were a few occasions where not all tender documentation was found and provided.

Prospects for improvement are considered Good because:

- Substantial improvements have been made since the last audit, with action being taken to address the issues raised.
- There is a positive attitude amongst management and staff encountered during the audit

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	1	1	0
Low Risk	1	1	0

Transparency Code Compliance

Opinion	Substantial
Prospects for Improvement	Good

Strengths

- The Council is fully compliant with the Transparency Code for three out of the ten information titles we are required to publish and partial compliance in the remaining five information titles. In general areas of non-compliance had not committed any significant breaches.
- We are complying with some areas of the Code that are recommended rather than mandatory, demonstrating a willingness to be open and transparent where possible.
- With the exception of one information title, data had been published within the timescales of the Code requirements. The area of non-compliance had been placed in the public arena, but not on the website.

Areas for Improvement

- Communication of the Code's requirements has been focused towards the responsible Directors and Heads of Service and has not consistently been filtered down to staff responsible for extracting the data, resulting in some staff not being sufficiently aware of requirements and following incomplete guidance notes.
- Data published for Land and Buildings is not currently compliant with six mandatory requirements.

There are good prospects for improvement because;

- The track record to date in reaching current levels of compliance
- The culture of complying with elements of recommended rather than mandatory requirements.
- The rectification of land and building data is due by Sept 2015.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	3	3	0
Low Risk	6	5	1

Pensions Payroll

Audit Opinion	Substantial
Prospects for Improvement	Good

When a Kent LGPS member retires, their pension is set up and paid through the Pensions Payroll process which is run by the Business Service Centre and recorded on the Altair pensions system. The Pension Payroll Team is responsible to acting on instructions from the Kent Pensions team which administers the pension fund. They set up new pensions, process changes (such as pensioner address and bank account details), cease pensions for deceased pensioners and the Control Team process the monthly pay-run for all Kent County Council pensioners.

Strengths

- New pensions are set up promptly and accurately based on instructions from the Pensions team.
- Pensions are suspended promptly after notification of a death.
- Payments are calculated correctly.

Areas for Improvement

- Procedure notes require updating.
- System access for staff within the control team is not appropriate.
- A robust process needs to be implemented regarding the recovery or write off of pension overpayments.
- The current authorisation arrangements for pension payments via BAC's are not sufficient.

There are Good prospects for improvement, because:

- The change of management to the Business Service Centre in April 2015 was undertaken successfully with no service deterioration.
- The issues arising have been accepted and actions agreed to address them.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	n/a
Medium Risk	4	4	n/a
Low Risk	3	3	n/a

Oracle Application Review - covering General Ledger, Accounts Payable, Accounts Receivable, Payroll & Human Resources modules

Audit Opinion	Substantial
Prospects for Improvement	Good

The audit opinion is based on a review of relevant documentation, interviews with key officers and sample testing, which confirmed that in the areas of user access, application maintenance, data processing, backup and recovery and governance, controls are in place and operating as intended for Oracle GL, AP, AR, Payroll and HR modules.

Strengths

- User permissions for the Oracle modules are tightly controlled and appropriate
- Change management governance is thorough, documented, and followed for changes to the Oracle modules
- The import and export of data into and out of the Oracle modules is controlled and processes are in place to reconcile data to ensure that these transfers are complete and accurate
- Oracle data backups are regularly performed, validated and secured
- The governance of Oracle is well-documented

Areas for Improvement

- Oracle audit logs are not securely stored.
- The Oracle Data Retention Policy has not been implemented; in particular there are no arrangements to delete old data which is no longer required.
- Governance reference documents with details of standards and procedures in use within the Oracle Business Services Team are in place, but there is no evidence that they have been agreed or signed off.

Prospects for improvement are considered to be Good overall, because:

- There is a high level plan governing the Oracle Business Services team that is robust and up to date;
- Capacity for future licenses is good;
- However, there are disaster recovery actions still outstanding after a 2014 audit and Oracle data retention plans do not comply with KCC requirements.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	3	2	1
Low Risk	2	2	0

Business Continuity Planning

Opinion	Substantial
Prospects for improvement	Good

The overall opinion is based on a review of relevant documentation for a sample of the more mature continuity plans and interviews with key business continuity plan coordinators. Our audit opinion of Substantial is based on the following:

Strengths

- Business continuity policy has been approved and communicated.
 - A Cross Directorate Resilience Group meets bi-monthly to discuss issues related to business continuity and share good practice.
 - The Resilience and Emergencies Unit has developed a business continuity template and guidance notes to help divisions and services develop their own business continuity plans.
- For the sample of mature Business Continuity Plans (BCPs) reviewed we found:
- Divisional and service plans have been approved and communicated.
 - BCP coordinators are appointed or nominated.
 - Business impact analysis has been completed.
 - Communication responsibilities and procedures are in place.

Areas for Improvement

- The Corporate BCP has not yet been approved and communicated.
- Some key stakeholders have been omitted from plan distribution lists.
- BCPs have not all been regularly reviewed and updated.
- Key third party partners and suppliers also need to be made aware of KCC's divisional and service business continuity plans.
- Division and service business continuity plans have not yet been tested.
- We understand that there remain a number of Service level BCPs that require further development.

The Prospects for Improvement rating of Good is based on :

- The receptiveness of the Resilience and Emergencies team and management to continual improvement, despite the limited resources available.
- Links to the Kent Resilience Forum to share best practice and support.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	
Medium Risk	4	4	
Low Risk	0	0	

Payroll Follow-Up

Opinion	Substantial
Prospects for Improvement	Good

This follow-up audit has confirmed that action has been taken to resolve all the issues previously identified, although two new minor issues have been raised. The KCC Staff Payroll has been judged as Substantial because:

Strengths

- System access is appropriately controlled.
- Buddy checking of new joiner processing and payroll amendments is carried out.
- Payroll exception reports are produced and action taken to address any exceptions raised.
- Payroll amendments are processed correctly and promptly.

Areas for Improvement

- Absence records of the date that buddy checks are carried out some cases.
- The Counter Fraud Manager is not notified of all salary overpayments.

There are Good prospects for improvement, because:

- HRBC management have a strong track record of continuous improvement and have taken action to satisfactorily address the issues raised in our previous report.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	0	0	0
Low Risk	2	2	0

Debt Recovery

Opinion	Adequate
Prospects for Improvement	Good

The Debt Recovery process is well established and supported by a detailed training manual which provides guidance to staff. However it is a manual process (there is no dedicated Debt Management system) which uses excel spreadsheets and Oracle reports, making it difficult to operate efficiently. Staff shortages in the area have contributed to delays in the follow-up of Sundry debts in recent months, but have since been addressed.

Strengths

- The Debt Management Policy is regularly reviewed and updated.
- Reporting of Debt Recovery progress and write offs is appropriately detailed and timely.

Areas for Improvement

- Debt write offs have been processed without the appropriate authorisation and during the course of the audit an irregularity was discovered resulting in a resignation.
- The staff manual is in the process of being updated to properly reflect recent changes in the team structure.
- There have been delays in progressing Legal action and where costs exceed 15% of the debt it is unclear whether there has been appropriate approval to continue with legal action.
- Due to the manual nature of the processes (and lack of a Debt Management system) the processes are inefficient. 40% of Sundry debts sampled did not have timely follow-up action taken, although the position was better for Social Care debts.

The Prospects for Improvement are considered to be Good because:

- Action has been taken to increase staff capacity and fill existing vacancies, including a restructure to ensure clear ownership of tasks
- Performance management and reporting shortfalls are being addressed through implementing a new CRM system and improved Business Intelligence reporting.
- Longer term options are also being actively considered but any significant change is likely to take several months to take effect.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	0
Medium Risk	3	3	0
Low Risk	1	1	0

Learning and Development

Opinion	Substantial
Prospects for improvement	Good

The budget for training was transferred to the Organisation Development (OD) team from April 2015; the OD team and the Learning and Development team work closely together to ensure that the training meets the needs of KCC's strategic and business objectives.

Strengths

- A detailed and inclusive process is followed to ensure training meets strategic and business needs.
- There is a robust process for approving and monitoring the take up of training.
- Regular reports are produced to monitor training activity, including course attendance, non-attendance and cancellations.
- Detailed reports are produced to inform budget monitoring.
- A 10 week 'window' has been introduced for staff to arrange their training, after which funding may be withdrawn and re-allocated if this does not take place.
- A multi supplier framework has been developed for sourcing the training.

Areas for Improvement

- Lack of consistency of approach in evaluating mini tenders to provide training courses and inconsistent record keeping and storage of information in relation to mini tenders
- Low number of responses for evaluating training from both staff and their managers.
- Recovery of training costs from staff that leave the Council is not monitored to ensure they are received back into the L&D budget.

Prospects for improvement are considered to be Good because:

- Staff and management in both L&D and OD are open and receptive to change and improvement.
- There is a strong focus on budget and performance management within OD.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	1	1	0
Low Risk	2	TBC	

Opinion	Substantial
Prospects for Improvement	Good

Strengths

Safeguarding Quality Assurance Process

- Risk is considered from a variety of appropriate sources when planning quality assurance work and key risks are covered
- Records of allegations kept by the Local Authority Designated Officer (LADO) are detailed and rationales for decisions are clear
- Independent Reviewing Officer (IRO) and Child Protection Chair quality assurance processes had been completed as per the process
- Performance information is comprehensive and there is an appropriate level of scrutiny and challenge

Online Case file audit process

- There had been significant improvements since our previous audit reported in October 2012
- All cases graded 'Inadequate Critical' had been subject to immediate action and management oversight
- Completion rates for the first stage of the process are 20% higher than in 2012 and are currently 95%
- Reporting is complete and comprehensive, and reports demonstrate an overall positive direction of travel

Missing Children

- The service has carried out a significant amount of work to reduce risks associated with missing children
- There are quality assurance processes in place, both on going and in development, to monitor the impact of improvement work

There are Good prospects for improvement because;

- The team has a culture of continual improvement and development
- A restructure is in progress to ensure that work is focused on key areas and that quality assurance staff are able to provide a higher level of scrutiny and challenge

Areas for Improvement

Safeguarding Quality Assurance Framework

- There is no nominated overarching function that reviews or challenges the coverage and the outputs of the work completed by the Safeguarding Unit, to provide assurance to the Council that work is sufficiently risk based and that weaknesses identified are addressed
- There is no formal follow-up process in place to ensure that actions have addressed weaknesses identified as a result of case review or audit work

Online Case file audit process

- We were unable to evidence that timely action had been taken to address identified weaknesses in all cases graded inadequate
- 21% of peer reviews had not been completed and 20 peer reviewers had not completed three or more

Missing Children

- There is no performance information available to monitor the timeliness of returner interviews; 40% of our sample had not been completed within the statutory 72 hours

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	7	7	0
Low Risk	1	1	0

Foster Care Follow-Up

Opinion	Adequate
Prospects for Improvement	Good

Previous Issue	Conclusion from testing
Data Quality and Record Keeping (High)	This is continuing to improve.
Training (High)	Historic training records still require updating on Liberi and some Foster Carers have outstanding Core Training.
Regulatory and Practice Compliance (High)	Improvements in performance monitoring
Complaints and Allegations (High)	Whilst the case records have improved the LADO should be consulted in relation to all potential referrals .
DBS Checks (other members of the household) (High)	There is now a tracker in place and there were relevant DBS checks in the sample.
Expenses (High)	There have been some updates to the Foster Care handbook in relation to expenses.
Policies and Procedures (Medium)	These have been reviewed and are now up to date.
Payments to Foster Carers (Medium)	Phase 1 of contrOCC has been implemented and this is in the Audit Plan to be separately audited this year.
Risk Management (High)	The need for this in the form of a register is still disputed by management, but we saw evidence of risk awareness in other documentation.

An on-line auditing tool is due to be implemented shortly which will improve data quality and record keeping. Sample checking of 10 newly registered Foster carers found that home checks had been completed in all cases. A revised performance framework with weekly tracking tools are in place which monitors supervisions, DBS checks, Annual Reviews and Unannounced Home Visits etc. Testing found that all of the sample of 10 foster carers reviewed were receiving regular supervisions or there was evidence of reasons for any delays. Similarly, 9 out of 10 had annual reviews with the one outstanding booked. All in the sample had appropriate DBS checks and guidance in relation to expenses had been updated and enhanced.

Areas for Improvement

It is evident that improvements have been made since the previous audit and that current actions and initiatives should ensure that this continues. However testing found that two key areas require further action:

- Of a sample of 20 foster carers all had some gaps in core training and the training records on Liberi are not fully complete for historic cases.
- Teams should be reminded to consult the LADO when making decisions on whether to refer potential allegations.

There are good prospects for improvement, because:

- There is clear progress in relation to issues raised previously
- An interim Assistant Director is in place leading on further developments
- Data Quality has improved and there is enhanced performance monitoring and activity tracking through Liberi
- The issues arising from the follow-up have been accepted and actions agreed to address them

Audit Opinion	Adequate
Prospects for Improvement	Good

Key social care provision of Home Care in 2013/14 cost £41M. There were 130 plus providers in a fragmented market consisting of old, legacy contracts and a need to reshape the market through retendering (Wave 1) to achieve better control and to achieve sustainable savings through economies of scale and geographical clustering whilst maintaining or improving the levels of quality

Strengths

- Robust contracts are in place with twenty providers down from over one hundred.
- 90% of current clients are on the new Domiciliary Contracts
- The new unit cost is £0.91 less than prior to the re-let, meaning a proportion of the planned savings has been achieved
- There is quarterly monitoring of provider performance using set criteria and action is taken where necessary.

There are good prospects for improvement, because:

- The Homecare project has resulted in significant research and investigation into the causes of difficulties providers encounter including the inability to recruit staff in some areas and thus being unable to deliver the contract fully. However, the solutions might involve having to pay higher rates in some areas.
- The many lessons learnt can assist staff with future projects
- The issues arising have been accepted and actions agreed to address them.

Areas for Improvement

- Levels of anticipated budgeted savings do not appear to have been realised in the first year in the accounts for domiciliary care as savings have been downgraded due to mobilisation delays by £0.67 million and more clients than expected switching to Direct Payments by £0.55 million.
- The contracted unit cost has reduced by £0.91 from the baseline blended average of £14.92 but this is 20% less than the initial intended reduction of £1.15.
- There is more market control than before but there are capacity issues in West Kent South in particular, due to potential staff being able to obtain higher hourly rates of pay elsewhere.
- There is currently no clear project plan as to the completion dates of the remaining phases / waves
- Risk registers are in place but do not comply fully with the recommended KCC format though risks are adequately described. There is no evidence that risk ratings have changed over time or that evaluations are independently validated.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	n/a
Medium Risk	1	1	n/a
Low Risk	2	2	n/a

Client Financial Affairs Follow-Up

Audit Opinion	Substantial
Prospects for Improvement	Good

This audit followed up on the issues raised in our Client Financial Affairs audit in 2014/15.

The audit confirmed that there is clear improvement in controls with regards to the regular reconciliation of client bank accounts and the authorisation and monitoring of payments made via the CFA Imprest account. However there is still scope for further improvement in some areas.

Strengths

- Client bank accounts are being reconciled accurately and regularly
- Expenditure from the Imprest account is being appropriately authorised and subsequently recovered from the client.

Areas for Improvement

- Regular high client current account balances are being held with transfers to the reserve account not actioned
- Reserve accounts have not been set up in all cases where required
- Lack of evidence to support the reconciliation of personal monies paid made to the care homes on behalf of the client.

Prospects for improvement are considered Good because:

- Substantial improvements have been made since the last audit, with action being taken to address the issues raised.
- There is a positive attitude amongst management and staff encountered during the audit.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	2	2	0
Low Risk	0	0	0

Household Waste and Recycling Contract Management

Opinion	Substantial
Prospects for Improvement	Good

Strengths

- New contract management structures have been developed to support these two large contracts. The arrangements adopted are more robust, better defined, applied, monitored and reported than those seen for earlier contracts.
 - Bespoke systems (database and spreadsheets) have been developed and further refined for monitoring tonnages and related data and for reconciliation to other data sources, including KCC financial systems.
 - Formal Contract Board meetings have been established with the contractor which covers all aspects of contract management and performance in detail.
- Risk management processes for individual contracts and for the overall waste service have been developed and can be adapted to suit changing circumstances.

Areas for Improvement

- The data relationships and dependencies within bespoke systems need to be documented to help ensure accuracy and provide for succession planning;
- The process for dealing with rejected contaminated loads of garden waste should be defined to ensure that all additional disposal costs were recovered promptly.
- Arrangements for regular site inspections need to be formalised to ensure that all monthly KPIs can be monitored correctly.
- Contract deductions for site cleanliness need to be agreed, in line with the KPI.

Prospects for Improvement have been assessed as Good because::

- Waste management and staff are receptive to feedback and have demonstrated continued process improvement.
- The arrangements made and lessons learned from managing these contracts will inform future procurements and contracts.

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	0
Medium Risk	3	3	0
Low Risk	1	1	0

Appendix B -Summary of Significant Concluded Financial Irregularities

Ref	Internal or External	Allegation	Outcome
948	External	A member of the public gained access to a KCC payment terminal in a remote service and refunded £5,500 to a pre-paid payment card (similar to a gift card but useable in most retailers).	Working with the service and Kent Police we identified a potential suspect but were unable to obtain sufficient evidence to prosecute. £3,500 was recovered from the card provider. The service immediately secured the terminal in question. Work continues to identify and secure the remaining terminals.
1010 Page 98	External	Tonbridge and Malling Borough Council observed a vehicle displaying a deceased person's Blue Badge. A Penalty Charge Notice was issued and the incident was referred to KCC for further investigation.	The subsequent investigation identified the owner of the vehicle was the wife of the Blue Badge holder. The Badge Holder had died in 2008. An interview was conducted. The wife admitted using the Blue Badge that belonged to her deceased husband and altering the date to extend the badge's validity. As this was a first offence a simple caution was issued.
1018	Internal	A member of staff was alleged to have used one of the council's purchase cards to withdraw cash and spend it on personal items.	The subsequent investigation confirmed that personal purchases had been made and losses of £1,100 had been incurred. The member of staff was dismissed for gross misconduct. As this was a first offence and the member of staff has confirmed their agreement to repay the losses a simple caution was issued.

Appendix C – Anti-Fraud and Corruption Strategy

Anti-Fraud and Corruption Strategy

Document Owner	Robert Patteron, Head of Internal Audit Tel: 01622-694664 robert.patterson@kent.gov.uk
Version	Version 4

Document Review History

Version	Reviewed	Reviewer	Approver	Date approved
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A. IntroductionPolicy Statement

1. Fraud against Local Government is estimated to cost £2.1 billion per year. This is a significant loss to the public purse. To reduce these losses Kent County Council is committed to:

- The highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets.
- The prevention of fraud and the promotion of an anti-fraud culture.
- A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
- The investigation of all instances of actual, attempted or suspected fraud and will seek to recover any losses and pursue appropriate sanctions against the perpetrators. This may include criminal prosecution, disciplinary action, legal proceedings and professional sanctions.
- The Local Government Fraud Strategy: Fighting Fraud Locally which means the Council:
 - **Acknowledges** the threat of fraud and the opportunities for savings that exist.
 - Will **prevent** and detect all forms of fraud.
 - Will **pursue** appropriate sanctions and recover any losses.

The Council is committed to ~~the highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets. This strategy promotes:~~

- ~~A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.~~
- ~~The prevention of fraud and the promotion of an anti-fraud culture.~~
- ~~The investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties and the recovery of funds and assets lost through fraud.~~

Definition of Fraud

2. The council defines fraud as 'a criminal activity where deception is used for personal gain or to cause loss to another.' The Fraud Act 2006 introduced a single offence of fraud which can be committed in one of three ways:

- **Fraud by false representation** – Examples include providing false information on a grant or Blue Badge application, staff claiming to be sick when they are in fact fit and well, or submitting time sheets or expenses with exaggerated or entirely false hours and/or expenses.

- **Fraud by failing to disclose information** – Examples include failing to disclose a financial interest in a company KCC is trading with, or failing to disclose a personal relationship with someone who is applying for a job at the council.
 - **Fraud by abuse of position** – Examples include a carer who steals money from the person they are caring from, or staff who order goods and services through the council's accounts for their own use.
3. While fraud is often seen as a complex financial crime in its simplest form, fraud is lying. Some people will lie, or withhold information, or generally abuse their position to try to trick someone else into believing something that isn't true.

B. Culture Standards

4. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption based on the seven principles of public life. The Council will ensure probity in local administration and governance and expects the following from all employees, agency workers, volunteers, suppliers and those providing services under a contract with KCC.
- **Selflessness** - Act solely in terms of the public interest.
 - **Integrity** - Avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
 - **Objectivity** - Act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
 - **Accountability** - Be accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
 - **Openness** - Act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
 - **Honesty** - Be truthful.
 - **Leadership** - Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

- ~~Members and staff to lead through example by acting with integrity at all times and ensuring adherence to legal requirements, policies and procedures, rules and good practice.~~
- ~~All individuals and organisations (eg suppliers, contactors and service providers) with whom it comes into contact will act with integrity in all dealings with the Council.~~
- ~~Members, staff, bodies and organisations external to the Council, to report suspected fraud, corruption or other irregularity to the Head of Internal Audit in accordance with the Council's Financial Regulations, and Fraud Response Plan for Managers (Annex 1).~~
- ~~Senior managers to deal promptly and firmly with those who defraud, or seek to defraud the Council, or who are corrupt. The Council will always be robust in dealing with financial malpractice or those who breach statutory and legal obligations and its code of conduct.~~

Further reading

5. In addition to this strategy there are a range of policies and procedures that help reduce the Council's fraud risks. These include:

- Anti-Bribery Policy
- Anti-Money Laundering Policy
- Whistleblowing Policy and Procedure
- Kent Code
- Disciplinary Policy
- Financial Regulations
- Code of Member Conduct

C. Roles and Responsibilities

The Role of Elected Members

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

The Role of Employees

- 6.8. Kent County Council expects its employees to be alert to the possibility of fraud and corruption and to report any suspected fraud or other irregularities to the Head of Internal Audit.
- 7.9. Employees are expected to comply with the appropriate Code of Conduct and the Council's policies and procedures.

- | ~~8-10~~. Employees are responsible for complying with Kent County Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.
- | ~~9-11~~. Employees should follow instructions given to them by management. They are under a duty to properly account for and safeguard the money and assets under their control/charge.
- | ~~10-12~~. Employees are required to provide a written declaration of any financial and nonfinancial interests or commitments, which may conflict with KCC's interests. KCC Financial Regulations specify that employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.
- | ~~11-13~~. Failure to disclose an interest or the acceptance of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosures of gifts and hospitality.
- | ~~12-14~~. Managers at all levels are responsible for familiarising themselves with the types of fraud that might occur within their directorates and the communication and implementation of this strategy.
- | ~~13-15~~. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

Kent County Council's Commitment

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

D. Prevention

Responsibilities of management

- 19. The primary responsibility for the prevention and detection of fraud is with management. They must ensure that they have the appropriate internal controls in place, that they are operating as expected and being complied with. They must ensure that adequate levels of internal checks are included in

working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

Internal Audit

20. Internal Audit is responsible for the independent appraisal of controls and for assisting managers in the investigations of fraud and corruption.
21. Internal Audit includes proactive fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.

Working with others and sharing information

22. The Council is committed to working and co-operating with other organisations to prevent fraud and corruption and protect public funds. The Council may use personal information and data-matching techniques to detect and prevent fraud, and ensure public money is targeted and spent in the most appropriate and cost-effective way. In order to achieve this, information may be shared with other bodies responsible for auditing or administering public funds including the Audit Commission, the Department for Work and Pensions, other local authorities, HM Revenue and Customs, and the Police.

National Fraud Initiative

23. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (~~to the currently to the Audit Commission but in future to the Efficiency and Reform Group, which is a joint Cabinet Office and Treasury initiative~~) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by other public bodies. Any positive matches (eg an employee on the payroll in receipt of housing benefit) are investigated.

Training and awareness

26. The successful prevention of fraud is dependent on risk awareness, the effectiveness of training (including induction) and the responsiveness of staff throughout the Council.
27. Management will provide induction and ongoing training to staff, particularly those involved in financial processes and systems to ensure that their duties and responsibilities are regularly highlighted and reinforced.
28. Internal Audit will provide fraud awareness training on request and will publish its successes to raise awareness.

E. Detection and Investigation

29. The Council is committed to the investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties and the recovery of funds and assets lost through fraud.
30. Any suspected fraud, corruption or other irregularity should be reported to the Head of Internal Audit. The Head of Internal Audit will decide on the appropriate

course of action to ensure that any investigation is carried out in accordance with Council policy and procedures, key investigation legislation and best practice. This will ensure that investigations do not jeopardise any potential disciplinary action or criminal sanctions.

31. Action could include:

- Investigation carried out by Internal Audit staff;
- Joint investigation with Internal Audit and relevant directorate management;
- Directorate staff carry out investigation and Internal Audit provide advice and guidance;
- Referral to the Police.

32. The responsibility for investigating potential fraud, corruption and other financial irregularities within KCC lies mainly (although not exclusively) with Internal Audit. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

F. Raising Concerns and the Whistleblowing Policy

Suspensions of fraud or financial irregularity

33. All suspected or apparent fraud or financial irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.

34. If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also contact the Council's External Auditor, who may be contacted in confidence.

35. The Council's Internal Audit Section can be contacted by telephone on **01622 03000 694694 414500** or by mail to internal.audit@kent.gov.uk.

Whistleblowing Policy

36. Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing Policy and associated procedures.

37. The Council's Whistleblowing Policy encourages individuals to raise serious concerns internally within KCC, without fear of reprisal or victimisation, rather than over-looking a problem or raising the matter outside. All concerns raised will be treated in confidence and every effort will be made not to reveal the individual's identity if this is their wish. However, in certain cases, it may not be possible to maintain confidentiality if the individual is required to come forward as a witness.

38. Employees wishing to raise concerns can obtain a copy of the Whistleblowing [policy and Procedure](#) on KNet.

G. Conclusion

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

Fraud Response Plan

A.— Introduction

- 1.— This Fraud Response Plan forms part of the Council's overall Anti-Fraud Strategy and covers the Council's response to suspected or apparent irregularities affecting resources belonging to or administered by the Council, or fraud perpetrated by contractors and suppliers against the Council.
- 2.— It is important that Managers know what to do in the event of fraud, so that they can act without delay. The Fraud Response Plan for Managers provides such guidance to ensure effective and timely action is taken. Other documents that should be referred to when reading the Plan include:
 - Officers' Code of Conduct
 - Disciplinary procedure
 - Financial Regulations

B.— Objective of the Fraud Response Plan

- 3.— To ensure that prompt and effective action can be taken to:
 - Prevent losses of funds or other assets where fraud has occurred and to maximise recovery of losses
 - Identify the perpetrator and maximise the success of any disciplinary or legal action taken
 - Reduce adverse impacts on the business of the Council
 - Minimise the occurrence of fraud by taking prompt action at the first sign of a problem
 - Minimise any adverse publicity for the organisation suffered as a result of fraud
 - Identify any lessons which can be acted upon in managing fraud in the future

C.— How to Respond to an Allegation of Fraud

Management

- 4.— Where it is appropriate to do so, and where this can be done without alerting the perpetrator to the investigation, and staff involved have sufficient experience to do so without compromising any potential disciplinary or criminal investigation, initial enquiries may be made to determine if there actually does appear to be an issue of fraud or other irregularity.
- 5.— The purpose of the initial enquiry is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated.

~~6. During the initial enquiry, managers should:~~

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

~~14. If the results of the initial inquiry indicate that a more detailed investigation should be undertaken, managers should contact Internal Audit.~~

~~15. Internal Audit should be informed as soon as possible of all suspected or discovered fraud or corruption, in order that they may offer advice on any specific course of action that may be necessary. Managers must inform Internal Audit of:~~

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

~~Internal Audit~~

~~16. Depending on the size of the fraud or the circumstances of its perpetration, the Head of Internal Audit will consider whether Internal Audit staff should undertake the investigation. If appropriate, advice and guidance will be provided to enable an investigation to be undertaken by the manager's own staff.~~

~~17. Internal Audit will review the outcome of the investigation (irrespective of whether undertaken by its own staff or directorate staff), to ensure that appropriate action is taken to help disclose similar frauds and make recommendations to strengthen control systems.~~

~~Investigating Officer~~

~~11. The respective Investigating Officer (either from the directorate or from Internal Audit) will:~~

- ~~• deal promptly with the matter~~
- ~~• record all evidence that has been received~~
- ~~• ensure that evidence is sound and adequately supported~~
- ~~• secure all of the evidence that has been collected~~
- ~~• where appropriate, contact other agencies~~
- ~~• when appropriate, arrange for the notification of the Council's insurers~~

- ~~report to senior management, and where appropriate, recommend that management take disciplinary/criminal action in accordance with this strategy and the Council's Disciplinary Procedures.~~

~~12. Where circumstances merit, close liaison will take place between the Investigating Officer, the respective Directorate and Human Resources as appropriate.~~

Evidence

~~13. The best form of evidence is original documentation. Where it is not possible to obtain originals, for whatever reason, a copy will normally suffice. The copy should be clearly endorsed as a copy and if possible certified as a true copy of the original. This should preferably be certified by the person who took the copy from the original source document.~~

Interviews

~~14. Managers should not conduct any interviews with any suspect or potential witness without seeking advice before hand from Internal Audit.~~

~~15. The matters under investigation may constitute criminal acts, and consequently any interview of potential suspects must be conducted and recorded under specific guidelines as detailed in the Police and Criminal Evidence Act 1984 (PACE). Criminal proceedings may be compromised by conducting interviews outside of the scope of PACE.~~

~~16. Normal practice will be that Internal Audit staff conduct and/or control any interview related to suspected criminal offences.~~

~~D. If Evidence of a Criminal Offence is Discovered~~

~~17. At the conclusion of an investigation it may be appropriate to pursue a criminal prosecution. This can be achieved by referring the evidence to the police or alternatively KGC could instigate its own criminal proceedings.~~

~~18. Section 222 of the Local Government Act 1972 empowers local authorities, where they consider it "expedient for the promotion or protection of the interests of the inhabitants of their area to:~~

- ~~prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name, and~~
- ~~in their own name, make representations in the interests of the inhabitants at any public inquiry held by or on behalf of any Minister or public body under any enactment".~~

Police referral

~~19. Where there is evidence that a criminal act has taken place and referral to the police is considered appropriate by the Head of Internal Audit, any necessary Police liaison will be undertaken by Internal Audit staff.~~

~~20. Once referred to the police the decision whether to charge, caution or discontinue any case will rest solely with the police and the Crown Prosecution Service and their decision is final.~~

~~*Instigating Criminal Proceedings and the Decision to Prosecute*~~

- ~~21. This section is not intended to be prescriptive and each case will be considered on its individual merits. This section describes criteria relating to the alleged offence, alleged offender and value of the fraud that will be taken into account.~~
- ~~22. When the Council is considering instigating criminal proceedings the case will be objectively assessed by the Head of Internal Audit who will separately assess the circumstances and the evidence in relation to each potential defendant and each alleged offence.~~
- ~~23. The Head of Internal Audit will give due regard to aggravating and mitigating factors; any evidence pointing towards a statutory (or other) defence; and the Code for Crown Prosecutors. In relation to the Code for Crown Prosecutions consideration will be given to:~~
 - ~~• whether there is sufficient evidence to provide a realistic prospect of conviction, what the defence may be and how it is likely to affect the prospects of conviction~~
 - ~~• whether the prosecution is in the public interest.~~
- ~~24. It has never been the rule that a prosecution will automatically take place once the evidential stage is met. A prosecution will usually take place unless the prosecutor is satisfied that there are public interest factors tending against prosecution which outweigh those tending in favour.~~
- ~~25. When deciding the public interest the following questions will be considered. The questions are not exhaustive, and not all the questions may be relevant to every case. The weight to be attached to each of the questions, and the factors identified, will also vary according to the facts and merits of each case.~~
 - ~~• How serious is the offence committed?~~
 - ~~• What is the level of culpability of the suspect?~~
 - ~~• What are the circumstances of and the harm to the victim?~~
 - ~~• Was the suspect under the age of 18 at the time of the offence?~~
 - ~~• What is the impact on the community?~~
 - ~~• Is prosecution a proportionate response?~~
 - ~~• Do sources of information require protecting?~~
- ~~26. If during the course of the prosecution process new information becomes available, or the defendant's circumstances alter, a re-assessment of the course of action will be made and, if necessary, a prosecution withdrawn or a different allegation substituted.~~

~~*After the Decision*~~

- ~~27. Once the Head of Internal Audit has decided whether a criminal prosecution should be pursued by the Council, the appropriate Corporate Director will be consulted. If a prosecution is to be pursued the case will be referred to Legal Services who will review the case and if appropriate instigate criminal proceedings on behalf of the Council.~~

~~28. It should be noted that the final decision regarding whether or not a case is presented in court rests with the prosecuting solicitor. Where the prosecuting solicitor is the Council's Legal Services, a decision not to proceed with a case will only be taken after discussion in the first instance with the instructing officer.~~

~~Simple and Conditional Cautions~~

~~29. Where a prosecution could succeed and the offender admits their guilt, but the individual circumstances of the case suggest that a more lenient approach may be appropriate, in accordance with the Code for Crown Prosecutors consideration will be given to offering a simple caution or referring the matter to the police requesting they deal with the case by way of a conditional caution.~~

~~30. No simple caution will be offered unless there is admissible evidence of sufficient weight to suggest that a court would be more likely than not to convict, and there are no statutory bars (e.g. in relation to time limits or statutory notices).~~

~~Monitoring~~

~~31. The Head of Internal Audit will report annually on the number of cases referred for prosecution and their outcomes to the Governance and Audit Committee.~~

Glossary of Terms

Fraud

~~The term 'fraud' is commonly used to describe the use of deception to deprive, disadvantage or cause loss to another person or party. This can include theft, the misuse of funds or other resources or more complicated crimes such as false accounting and the supply of false information.~~

~~The legal definition of fraud contained within the Fraud Act 2006 includes; fraud by false representation; fraud by failing to disclose information and fraud by abuse of position. Fraud is typically associated with financial loss however the strategy relates to acts of dishonesty whether or not financial loss is incurred.~~

Bribery and Corruption

~~The terms bribery and corruption are often used interchangeably. For example, corruption usually involves two or more people entering into a secret agreement. The agreement could be to pay a public official to secure a favour of some description, such as the award of a contract.~~

~~The Bribery Act 2010 replaced the Prevention of Corruption Acts 1889 to 1916 with a new consolidated scheme of bribery offences. The Bribery Act 2010 makes it an offence to;~~

- ~~• Offer, promise or give a bribe (section 1).~~
- ~~• Request, agree to receive, or accept a bribe (section 2).~~
- ~~• Bribe a foreign public official in order to obtain or retain business (Section 6).~~

- ~~The Act also introduced a new corporate offence (section 7) of failure by a commercial organisation to prevent bribery in the course of its business. The Council's anti-bribery policy and procedures can be accessed on KNet.~~

Appendix D - Audit Plan 2015/16 Progress

Project	Progress at September 2015	Date to G&A	Overall Assessment	Project	Progress at September 2015	Date to G&A	Overall Assessment
Core Assurance							
Annual Governance Statement	Complete	July 2015	Substantial	Consultation	Planning		
Business Continuity	Complete	October 2015	Substantial/ Good	Strategic Transformation – Partnership Contracts	In progress		
Transparency Code Compliance	Complete	October 2015	Substantial/ Good	Contact Point			
Information Governance				Recruitment and Retention Incentives	Planning		
Performance Management and KPI Reporting				Recruitment Controls	In progress		
Risk Management				Payroll Key Controls Follow-up	Complete	October 2015	Substantial/ Good
Corporate Governance – KCC				Pensions Payroll	Complete	October 2015	Substantial/ Good
Departmental Governance Review – Public Health	Planning			Pension Scheme Administration			
Corporate Governance – Alternative Service Delivery Models				Member and Officer Expenses – Follow-Up			
Implementation of Strategic Commissioning Strategy				Disclosure and Barring Service Process	Merged with Recruitment Controls		
Declarations of Interest				Oracle Right Now			

Project	Progress at September 2015	Date to G&A	Overall Assessment	Project	Progress at September 2015	Date to G&A	Overall Assessment
Programme Management and Corporate Assurance	In progress			Learning and Development	Complete	October 2015	Substantial/ Good
Portfolio and Programme Checkpoint Reviews	In progress			Compromise Agreements and Disciplinary Process			
Transformation and Change – Major outsource arrangements				Contract Extensions and Variations	Planning		
Core Financial Assurance							
Schools Financial Services – System of Audit				Client Financial Affairs Follow-up	Complete	October 2015	Substantial/ Good
Schools Themed Review – Payroll and Income	Planning			Debt Recovery	Complete	October 2015	Adequate/ Good
Payment Processing				Financial Assessments Follow-up			
Family Placement Payments				Grants			
Pension Contributions				Insurance			
Treasury Management				iSupplier			
Capital Finance							

Risk/Priority Based Audit							
Total Facilities Management (TFM) – Contract Management	Draft Report			Home Care	Complete	October 2015	Adequate/ Good
TFM – Property Service Desk	Planning			Public Health Advice to CCGs	Merged with Public Health Governance Review		
New Ways of Working Follow-Up	In progress			Sexual Health	In progress		
Data Quality – Oracle HR	In progress			Kent Drug and Alcohol Service Follow-up	Merged with Public Health Governance Review		
Blue Badges	In progress			Clinical Governance Process	Merged with Public Health Governance Review		
Safeguarding Framework – Adults				Health Inequalities	Merged with Public Health Governance Review		
Care Act – Pre and Post Implementation	On hold			SEN Assessment and Funding			
Better Care Fund	Planning			Elective Home Education Outcomes			
Integrated Discharge Scheme				School Admissions – Fair Access			
Independent Living Scheme				Community Learning and Skills	Complete	October 2015	Substantial/ Good
Pooled Equipment Budget	Planning			School Improvement Team	Planning		
Boundary Re-alignment and Change Management				Troubled Families	In Progress		
Mental Capacity Act and Deprivation of Liberty				Contract Management – Household Waste and Recycling	Complete	October 2015	Substantial/ Good
Autism Service				Developer Contributions and Community Infrastructure Levy			

KCC/KMPT Partnership agreement and AMHP (Approved Mental Health Professionals) service	Planning			Local Growth Fund and Local Enterprise Partnership	Planning		
Transformation and Integration of Disabled Services	In Progress			Regional Growth Fund	Planning		
Adult Social Care Transformation Phase 2	In Progress			Broadband Delivery UK Watching Brief	In progress		
0-25 Change Portfolio	In Progress			Coroners Service			
Quality Assurance Framework Safeguarding Children	Draft	October 2015	Substantial/ Good	Allington Waste Incinerator Contract			
On-line Case File Audit – Children	Merged with Safeguarding Children			Transformation and Change – Transport inc SEN			
Missing Children	Merged with Safeguarding Children			Transformation and Change – Libraries, Registration and Archives	On Hold		
Adoption Service				Transformation and Change – Property			
Looked After Children's Finances	In Progress			Economic Development Contract Management			
Section 17 Payments Follow-up				International Development Team			
Leaving Care Service				Kent Resilience Team	Planning		
Foster Care Follow-up	Complete	October 2015	Adequate/ Good	Carbon Reduction Commitment – Annual Return	In progress		
Older Persons Residential and Nursing Contract Re-let	In Progress			Community Wardens			
Supporting People Follow-up				EduKent Follow-up			

ICT Audit							
Oracle Application Review	Complete	October 2015	Substantial/ Good	Review of Third Party ICT Contracts			
ICT Strategy and Governance				Data Centres			
ICT Change Management				Swift Application Review			
Software Lifecycle Management				WAMS Application Review			

Appendix E - 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 on 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.

Prospects for Improvement

Very Good

The operation displays strong building blocks for future improvement with exceptional leadership, direction and capacity

Good

The operation has satisfactory building blocks present for future improvement, there are minor improvements required in leadership, direction and capacity

Adequate

The operation has limited building blocks present for future improvement and there are weaknesses in leadership, direction and capacity

Uncertain

There are no building blocks evident for future improvement, leadership and direction is absent and there is no capacity.

By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 2nd October 2014

Subject: **INTERNAL AUDIT AND COUNTER FRAUD
BENCHMARKING RESULTS**

Classification: Unrestricted

Summary: This report summarises the 2014/15 Internal Audit and Counter Fraud Benchmarking Results.

FOR DECISION

Introduction

1. Internal Audit is currently a member of the CIPFA Audit Benchmarking Club. Through this club, information about Internal Audit's costs and productivity is compared against other 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. We are also a member of the County Council Audit Networking (CCAN) benchmarking club which offers less complex benchmarking comparisons amongst 29 County Councils.
3. Our Counter Fraud function is also able to compare fraud activity and returns to a number of information sources including The European Institute for Combatting Corruption and Fraud (TEICAF), the Chartered Institute Public Finance and Accountancy (CIPFA) and also through data published by local authorities as a result of the new Local Government Transparency Code.
4. As a reminder, benchmarking is the start of an analytical process, not an end.
5. Unfortunately of the 45 local authorities who participated in the CIPFA internal audit survey only three were County Councils (down from 9 in the previous year and 21 in the year before that.). Surrey and Essex for example being the largest and geographically close Counties to Kent have not participated. The other two Counties in the survey are smaller Midlands based organisations. As reported previously a large number of County Councils have decided the cost of the subscription coupled to the cost of extracting the level of data required by CIPFA outweighs the outcomes and benefits.

6. The results from the CCAN survey are not yet available, but will be presented back to the January Committee meeting.

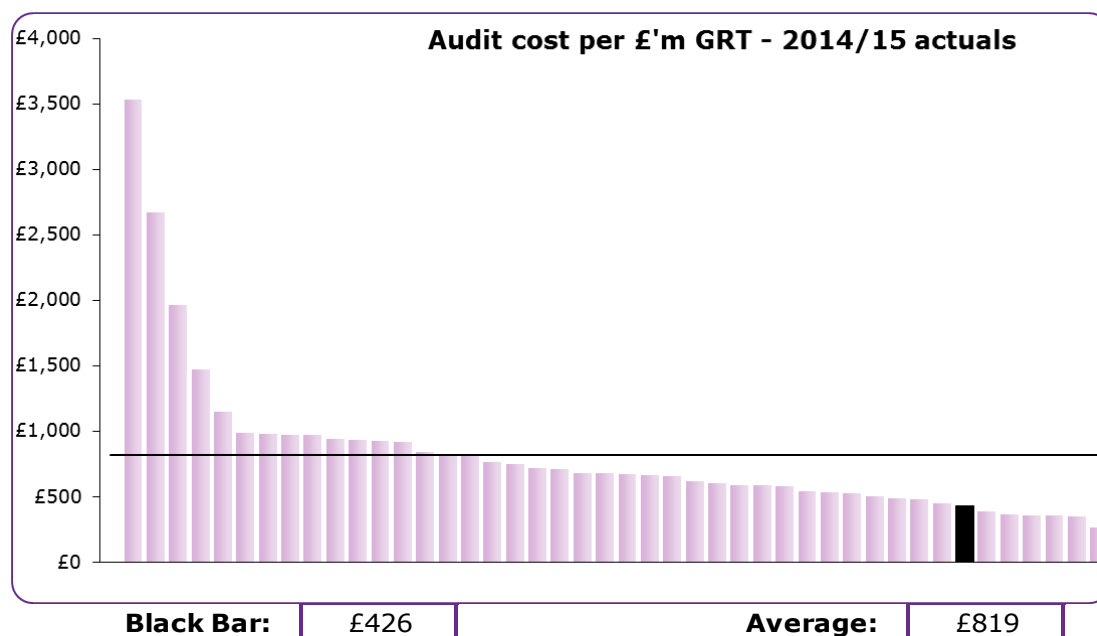
Headlines

7. Because of the small number of County Councils in the CIPFA survey we have determined to benchmark across the complete sample of 45 local authorities.
8. Table 1 below provides the main headlines:.

Table 1: Summary of 2014 - 2015 position

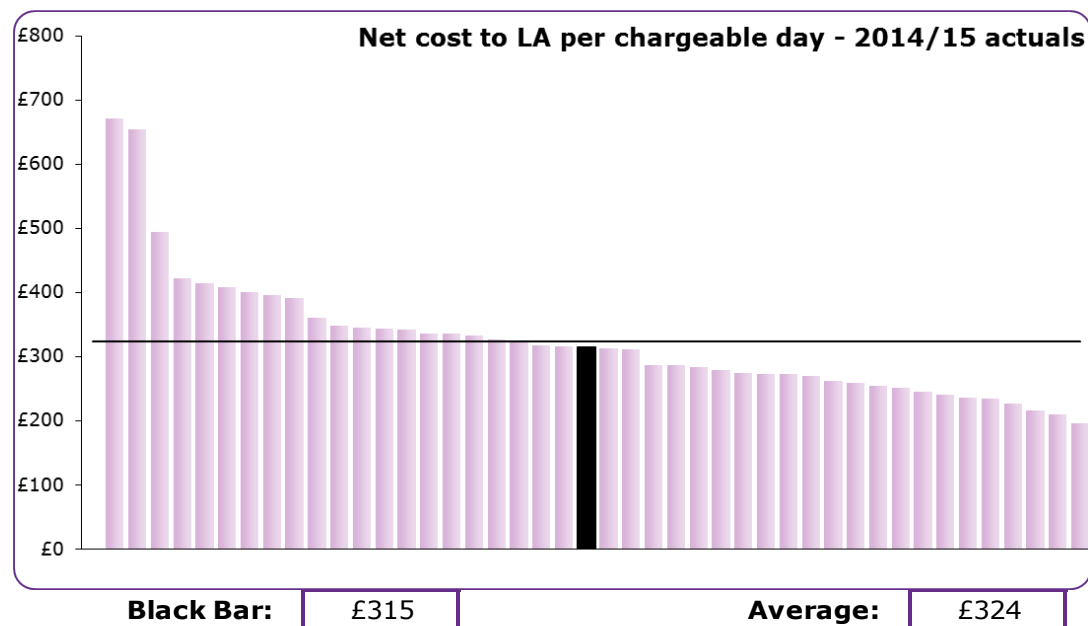
	Kent	Average
Cost per £'m	£426	£819
Cost per auditor (including on-costs and allocation of overheads) £'k	£49,946	£54,795
Chargeable days per auditor	175	179
Cost per chargeable day	£315	£324

Comparative spend on audit

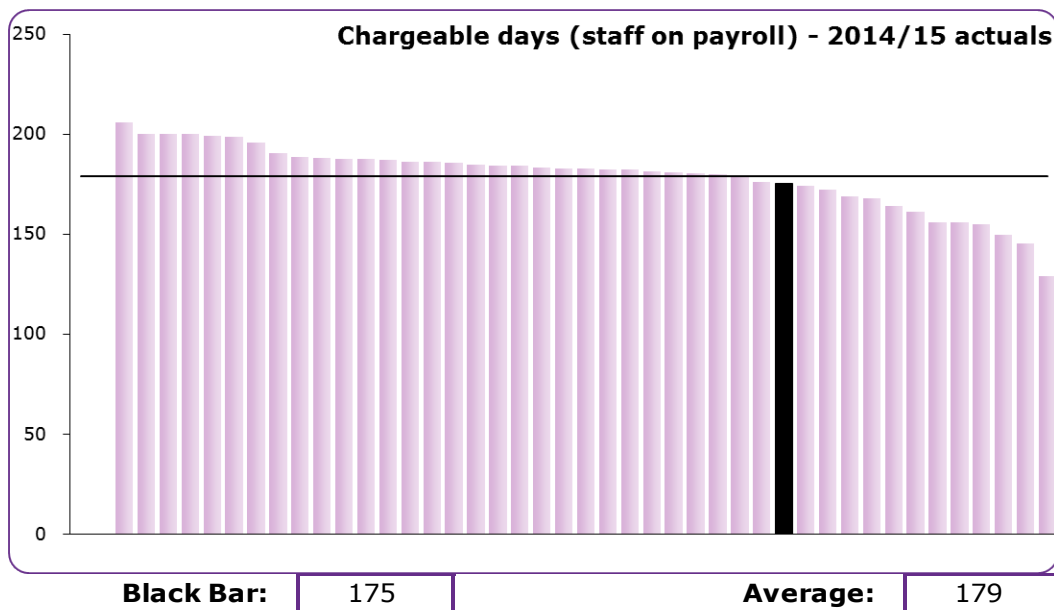
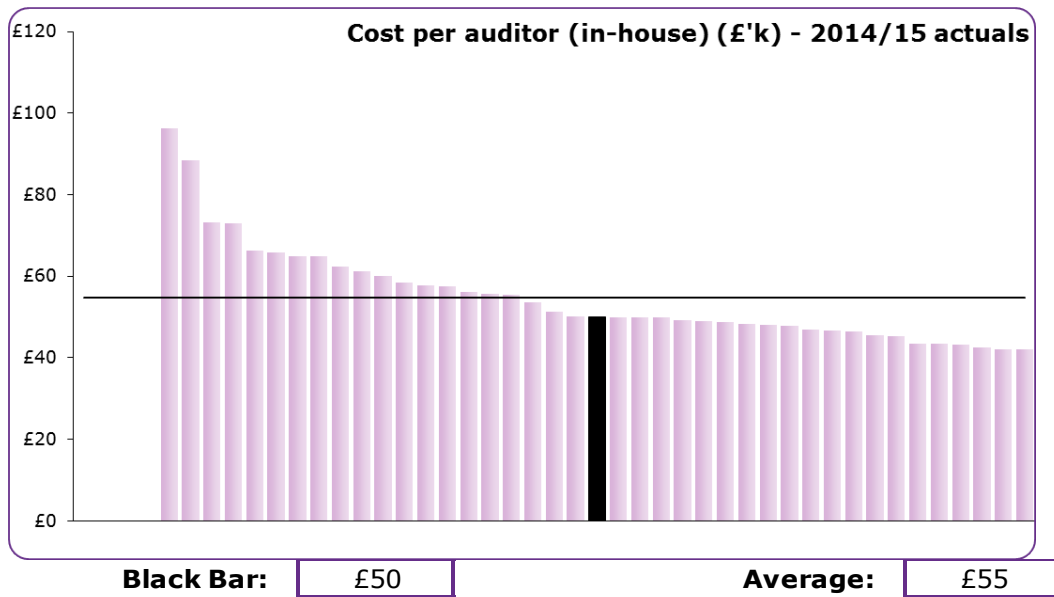


9. Across the survey Kent County Council continues to spend well below average on its audit service per £m gross turnover, (shown in black shade) and although it will increase slightly in 2015/16 it is still below 2012/13 levels. Clearly there are economies of scale with such a large organisation and in addition Kent's Internal Audit does not carry out school audits. In Kent, the Schools Compliance team within Finance undertake these.

Productivity



10. The net cost per chargeable day remains fairly static at £315 (from £311 in 2013/14) and is a significant decrease from £351 in 2011/12 which included significant costs associated with redundancy.
11. The cost per chargeable day is also lower than the average of £326 across the sample. Of note our knowledge of private sector chargeable rates and current internal audit call off contracts in the south east range from £370 - £800 per day.
12. 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:



13. This shows that the section's auditor costs (Approximately £50,000) are below that of the sample. Indeed, costs per auditor for 2014/15 show a small drop on the previous year.
14. The chargeable days per auditor is marginally below average at 175 days, but shows a 7% increase on the previous year despite a cohort of staff studying for professional qualifications. This shows productivity is rising, more particularly as a result of a considerable reduction in staff turnover over the past year.

Counter fraud work and investigations

15. Because counter fraud data is more extensive it is possible to undertake more meaningful County Council comparisons both in terms of resource inputs through to outcomes in terms of fraud and irregularity detection and recoveries.
16. Nevertheless there are a number of challenges when considering counter fraud performance; firstly, fraud detection results are open to often widely differing interpretation. For example, if an authority reports that 'no fraud was detected' does this mean that there is no fraud being committed against the Council, or that the Council does not have adequate resources to detect fraud, or the Council is not looking for fraud in the right places? Secondly, to tackle fraud effectively authorities should be undertaking activity to detect, investigate *and* prevent fraud. None of the current sources requires authorities to provide information about their fraud prevention activity.
17. Our counter fraud team spends a significant amount of time promoting fraud awareness and reviewing key policies, process and systems to try and prevent fraud from occurring in the first place. This is difficult to reflect with the available information. We have sought to supplement the available data by forming our own county council specific benchmarking club with other county councils; however the majority of the information available still focusses on detected levels of fraud. As a result of these challenges fraud detection data reflects a number of variables including:
 - the amount of fraud being committed against the Council;
 - how well the Council prevents and deters fraud;
 - the investigative capacity at the Council to detect fraud;
 - how efficient and effective the investigative resources are; and
 - The timing, accuracy and interpretation of the data returns.

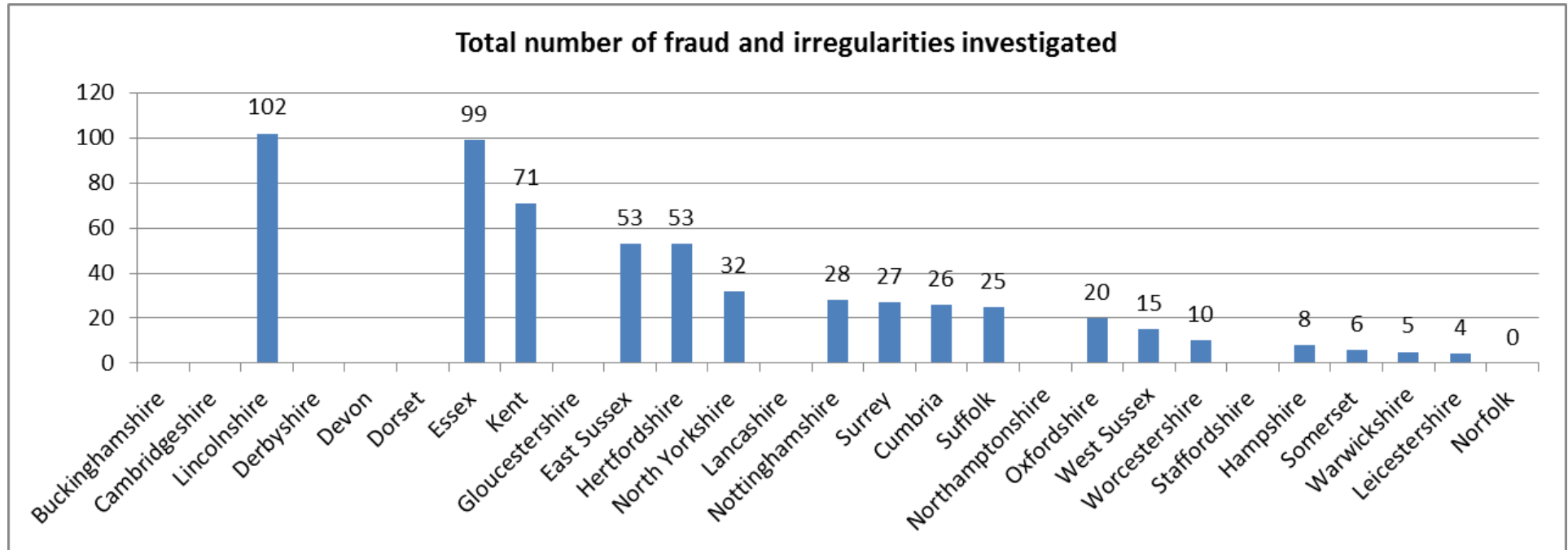
Local Government Transparency Code 2015

18. Under the Local Government Transparency Code there is a requirement for local authorities to publish annually the following:
 - number of occasions they use powers under the Prevention of Social Housing Fraud (Power to require Information) (England) Regulations 2014, or similar powers¹;
 - total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud;

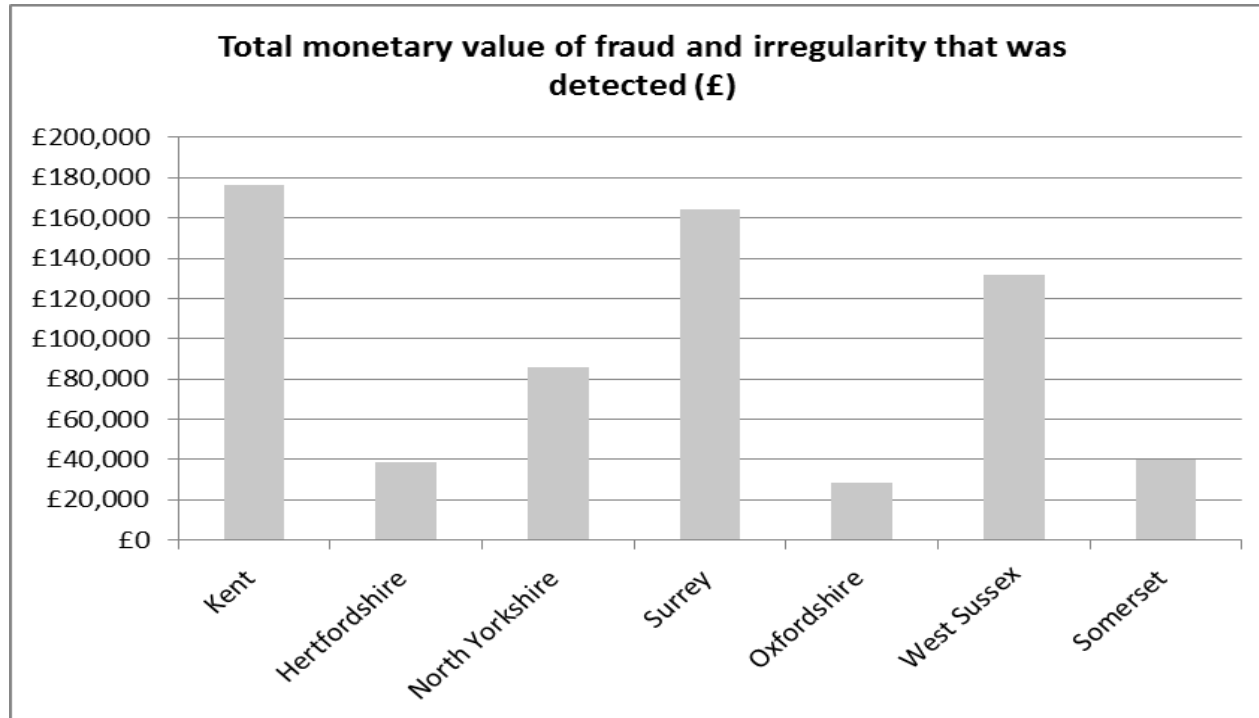
¹ These powers are not relevant for County Councils.

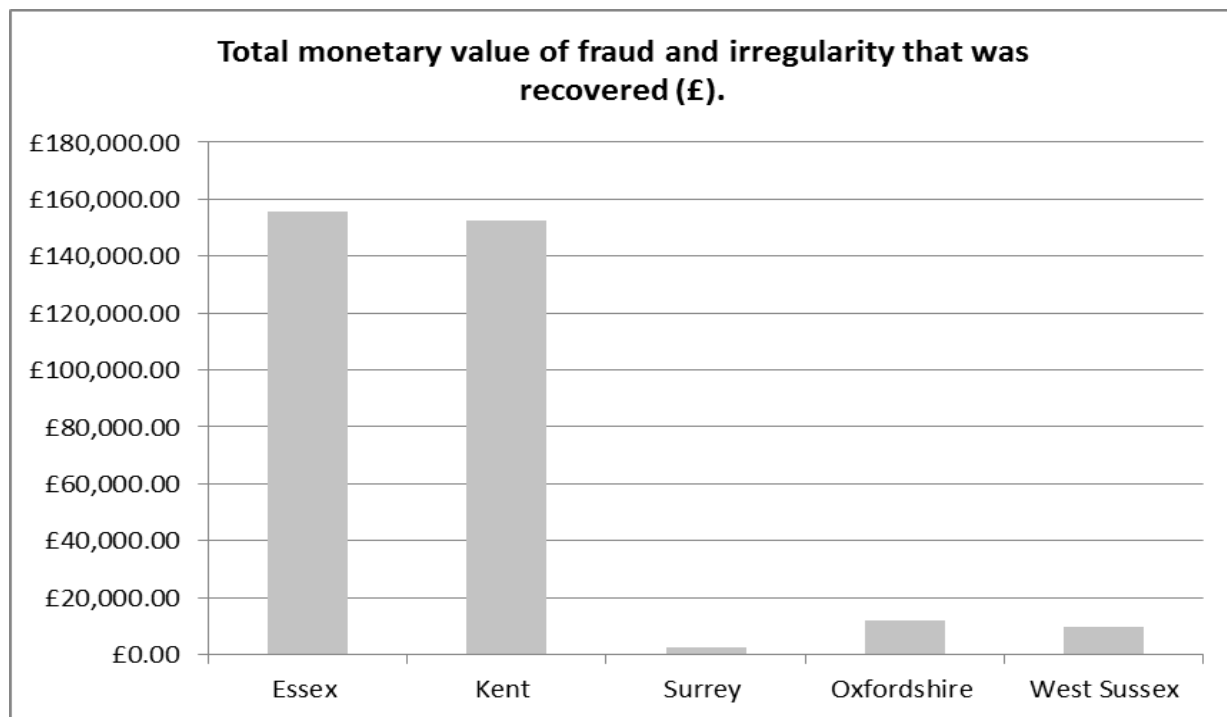
- total number (absolute and full time equivalent) of professionally accredited counter fraud specialists;
 - amount spent by the authority on the investigation and prosecution of fraud;
 - number of fraud cases investigated.
19. Authorities are also encouraged to publish the following non-mandatory information:
- total number of cases of irregularity investigated;
 - total number of occasions on which a) fraud and b) irregularity was identified;
 - total monetary value of a) the fraud and b) the irregularity that was detected; and
 - total monetary value of a) the fraud and b) the irregularity that was recovered.
20. The code required local authorities to publish the data by the 1st February 2015 and then annually thereafter. Although a number of authorities do not appear to have complied, the data still provides some opportunities for benchmarking. We have obtained and compared the published data, in summary these results show that:

The average number of fraud and irregularities cases investigated is 32. KCC investigated 71, the 3rd highest overall.

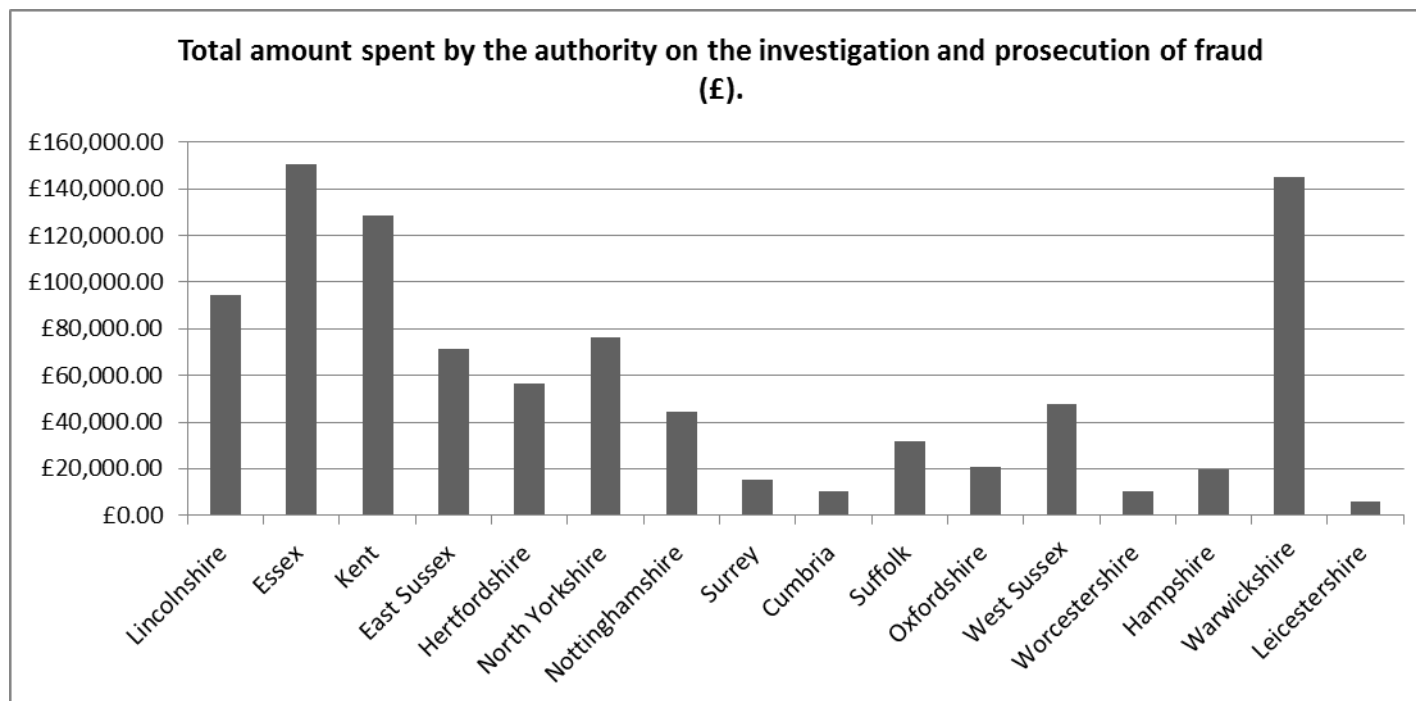


KCC identified the highest financial value of detected fraud and irregularity (a combined total of £176,000) and identified the highest amount for recovery (a combined total of £152,000).

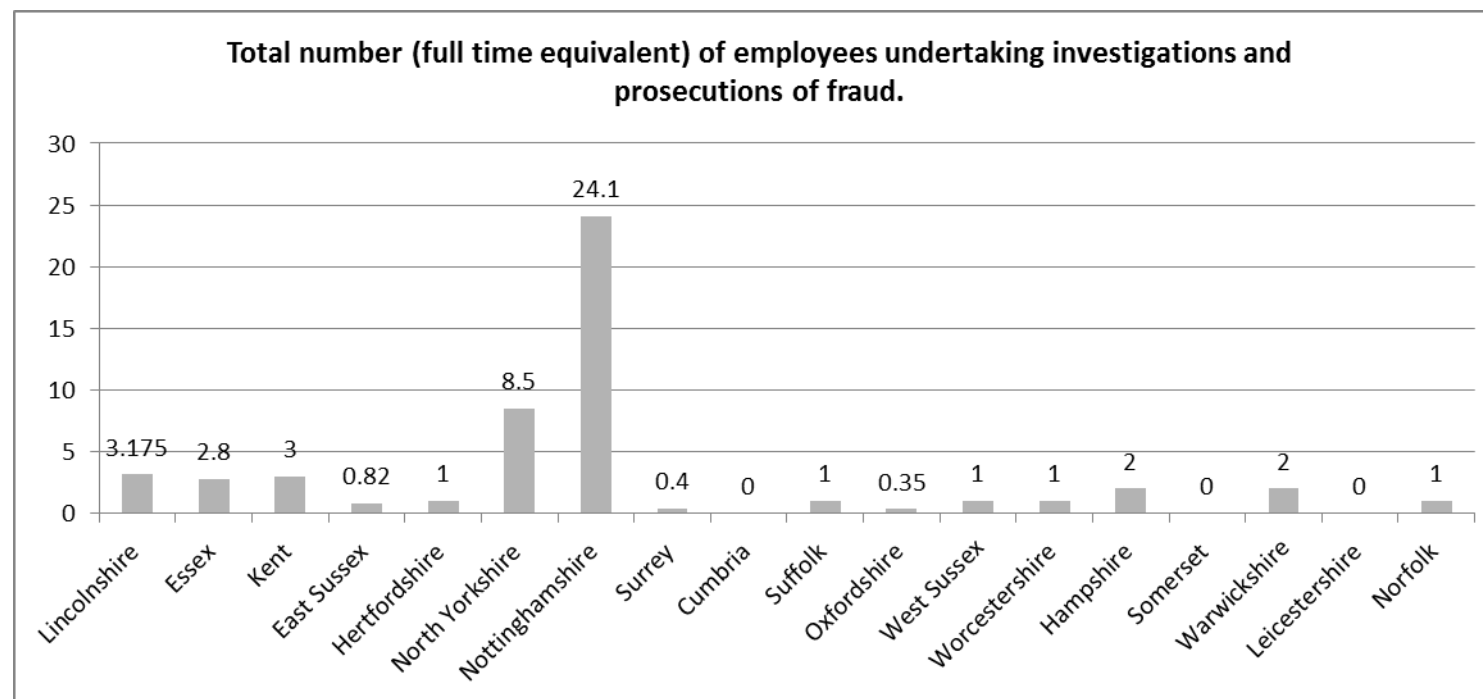


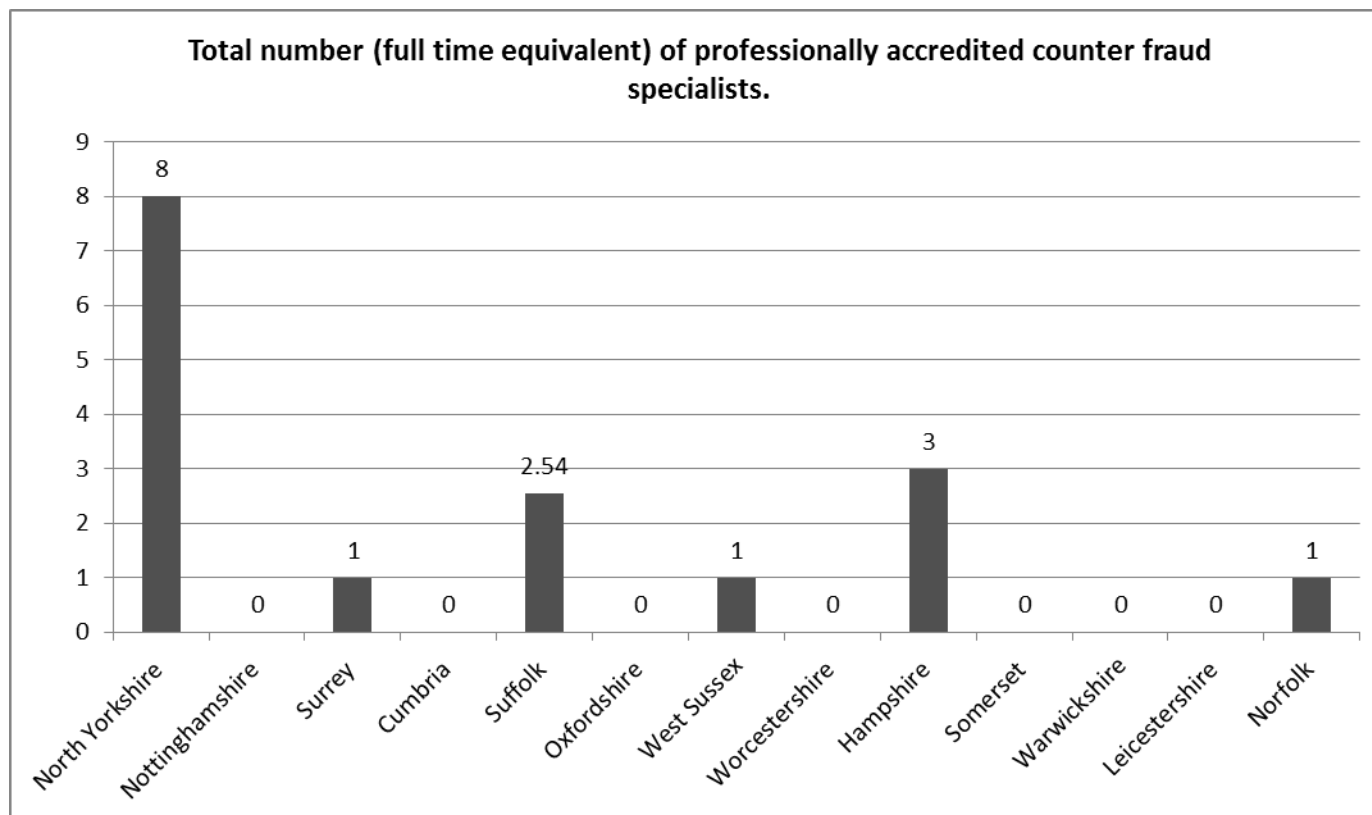


On average County Councils spend £55,000 investigating and prosecuting fraud. KCC spent £129,000 and has the 3rd highest spend overall.



On average County Councils employed 2.9 full time equivalent (FTE) staff to investigate and prosecute fraud. Of those 1.5 FTE were professionally accredited counter fraud specialists. KCC employed 3 FTE staff, 2 of which are professionally accredited counter fraud specialists (now 3).





TEICCAF and CIPFA Counter Fraud Surveys

21. TEICCAF have published their analysis of the data returned for all the English councils that chose to participate in their survey. A copy of the report is available at www.teiccaf.com. The report from CIPFA is expected later this year. The participants in our benchmarking club provided copies of the returns they submitted to these organisations on the basis the results remained anonymous. These returns reveal the following information:

Detected Fraud

- Across the benchmarking club participants fraud was most frequently detected in the Blue Badge Scheme, Social Care and when procuring goods and services (excludes the 'other' fraud category). In addition to these areas Kent detected the most fraud in the Kent Support and Assistance Scheme (although the value of this fraud was very low).
- The total value of detected fraud across the participants was £1.4million. The highest financial values of fraud were detected within Social Care, procurement and the Blue Badge Scheme (excluding the other and abuse of position fraud categories).

Counter Fraud Activity (in days)

- On average the participants spent 174 days investigating allegations of fraud. Kent spent 160 days and was the second highest overall.
- On average the participants spent 14 days promoting fraud awareness. Kent spent 22 days and had the second highest level of activity in this area.
- On average the participants spent 37 days undertaking fraud prevention work. Kent spent 49 days and was the second highest in the group.

Conclusions - Fraud Benchmarking

22. There are limitations to the available and accuracy of benchmarking data. Having considered this benchmarking data, and the requirements set out in CIPFA's code of practice on managing the risk of fraud and corruption, in our view KCC is at no higher risk of fraud than any other County Council, although Kent is successfully detecting and investigating fraud.
23. As a reminder the data for 2014/15 (previously reported) demonstrated that the KCC counter fraud team more than covers its costs from fraud recoveries.

Recommendations

24. Members are asked to note the benchmarking outcomes in relation to internal audit and counter fraud
25. That the results from the CCAN benchmarking are brought to the next meeting of the Committee

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3 October 2014

By: Bryan Sweetland – Cabinet Member for Commissioned and Traded Services
Amanda Beer – Corporate Director for Organisational Design and Development

To: Governance and Audit Committee

Date: 2nd October 2015

Subject: KCC Annual Customer Feedback Report 2014/15

Classification: Unrestricted

Summary: This report provides a summary of the compliments, comments and complaints recorded by the Council. The report includes Local Ombudsman Complaints, Members Complaints and reference to recent and future improvements in the administration of customer feedback.

Recommendation: Committee is asked to note the contents of this report.

1. INTRODUCTION

- 1.1 This is the Council's sixth annual report on compliments, comments and complaints. This report sets out:
- A summary of the compliments, comments and complaints received by the Council for the year April 1st 2014 to March 31st 2015
 - The Local Government Ombudsman Complaints Statistics for the year April 1st 2014 to March 31st 2015
 - Member Complaints for the year April 1st 2014 to March 31st 2015
 - The findings of the Kent County Council Audit of Customer Feedback and the actions to be taken.
- 1.2 During 2013, the Council launched 'Facing the Challenge' which sets the direction for KCC to become a Commissioning Authority, placing customers at the heart of everything we do. Building on the foundation of the existing Customer Service Strategy (2012), a new Customer Service Policy has been designed to support KCC and Commissioners to deliver on the Council's commitment to customers. This is due to be launched to both staff and public in later this year.

- 1.3 Customer feedback, whether it is a compliment, comment or complaint, provides invaluable insight to the experience of customers, service users and all who interact with the Council. Good quality insight builds intelligence and understanding of where the Council is meeting expectation and doing well and what needs to be done to improve service outcomes for all customers.
- 1.4 Managing the collation and analysis of customer feedback is challenging for an organisation operating on the scale of KCC. This activity becomes increasingly critical as more services are devolved and delivered through an extended and more complex supply chain.
- 1.5 KCC's new Customer Service Policy is linked to the Commissioning Framework and requires internal and external suppliers to comply with our procedures; provide data in a timely and appropriate format, evidence that that intended performance outcomes have been achieved. This will ensure that Members are able to discharge their responsibilities to Kent residents.
- 1.6 KCC Complaints Policy will be refreshed late 2015 to reflect a changing organisation. This Policy sets the common standard required for managing complaints to ensure that customers are assured through this process. Complainants will receive an acknowledgement to their complaint within 3 working days and a response within 20 working days, with the exception of Children Social Services and Adult Social Services statutory complaints.

2. MONITORING

- 2.1 The development of systems and mechanisms for recording all compliments, comments and complaints continues to be work in progress and opportunities to ensure the capture of all information from across KCC is ongoing. This report reflects current practice and the improvements that have been achieved. Officers currently involved in the local administration and reporting of customer feedback for their business areas are working very effectively. A best practice forum will be established to support further improvement and effective and more uniformed recording across KCC during 2015/16.
- 2.2 Throughout the year complaints monitoring has been reported in the Council's Quarterly Performance Report, highlighting any issues that have arisen during the previous three months.
- 2.3 Data for this report is currently gathered manually, and is reliant on a range of inputs from local services that reflect a variety of collation and reporting methods. The accuracy of the data in this report relies on the due care and attention of all staff to capture and submit feedback received; therefore whilst this report cannot be seen as definitive, it provides an overview of the trends in customer feedback activity.
- 2.4 Over the past two and a half years, the council has been dealing with a complaint from school governors. In this case, the Local Government Ombudsman (LGO) has refused to investigate the complaint and it has left the complainants with no further route for their complaint unless they sought to

issue legal proceedings. The complainants were particularly concerned about this given that they objected to the findings of the council at complaint investigation stage.

The complainants have established that there is a gap in relation to complaints of this type brought by governors. The council has now written to the LGO and government who are reviewing the role of the ombudsman generally, which provides an opportunity for change.

The council has also worked with the complainant to review their experience and this feedback will be reflected in changes to the complaints policy that will be forthcoming and is reflected in this paper. The work has included proposed changes to complaints procedures for governors, changes to decision-making processes and records and a procedure and process around exercise of statutory powers. These outputs are now with the Head of Law, Litigation and Social Welfare for implementation with the Cabinet Member for Education and Young People's Services.

3. PROFILE OF COMPLIMENTS AND COMMENTS TO KCC

- 3.1 A **compliment** is an expression of thanks or congratulations or any other positive remark. (Internal compliments are excluded from this process).
- 3.2 Compliments collected by services directly using traditional methods (email, letters, compliment cards etc.) across the council **decreased by 48%** with **2,358** recorded compliments from April 2014 to March 2015 compared to the previous year when 4,527 compliments were recorded. Compliments are equally important to record and have provided a valuable source of learning and can act as an indicator of best practice or highlight areas where we are getting things right across the Council. We are currently updating our recording procedure with clear guidelines to ensure all Compliments are captured.
- 3.3 A **comment** is a general statement about policies, practices or a service as a whole, which have an impact on everyone and not just one individual. A comment can be positive or negative in nature. Comments may question policies and practices, make suggestions for new services or for improving existing services.
- 3.4 This year we received **1,561** comments collected by services directly using traditional methods (email, letters, compliment cards etc.) compared with 2,250 last year. This is a **decrease of 31%** on the previous year. The council actively encourages customers to give opinions about services and we are exploring how best to present information on Kent.gov about actions taken in response to comments received from the public.

GovMetric feedback for 2014/15

- 3.5 Implemented during 2012, this is a fully automated system that provides KCC with a consistent opportunity to feedback across three primary service channels - Kent.gov, Contact Point and nine Gateway/Library face-to-face centres. This may account for the decrease in traditional feedback submissions as state above.
- 3.6 The table below provides a breakdown of the GovMetric feedback recorded across each channel by quality rating and volume. During 2014/15, KCC received 139,140 pieces of individual customer feedback with 28.5% recorded for Contact Point; 42.0% for Gateway/Library; and 29.4% for Kent.gov.

2014/15	Q1	Q2	Q3	Q4	Rating Total	Overall Total
Telephone						
Good	5109	6310	6020	11197	28636	39713
Average	1669	2258	1816	3221	8964	
Poor	413	527	465	708	2113	
F2F						
Good	9773	13765	10137	9706	43381	58467
Average	1413	2069	1380	3221	8083	
Poor	2088	2398	1809	708	7003	
Web						
Good	3667	3097	4130	4601	15495	40960
Average	922	862	1025	1036	3845	
Poor	6916	5101	5137	4466	21620	

- 3.7 During 2014/15, customer satisfaction (when combining good and average ratings) with Kent County Council as recorded by Contact Point was at **94.7%**, with only 5.3% of comments rating their experience with KCC as poor.

88.0% had a positive experience of Gateway/Library transactions, with 12.0% recording a poor experience.

47.2% satisfaction with Kent.Gov. and 52.8% indicating a poor experience and recommending improvements. There is a gap in the customer expectation and user experience when compared to commercial websites such as online banking and shopping. KCC is currently updating and improving Kent.gov usability and transactions under KCC's transformation agenda.

- 3.8 In 2014/15, the questions to the telephone survey were amended to gauge customer satisfaction with the Advisor, satisfaction levels reached **99.4%**, with only 0.6% of comments rating the service received from their advisor as poor.

Contact Point Advisor Satisfaction	Q1	Q2	Q3	Q4	Rating Total	Overall Total
Good	6480	7980	7329	13335	35124	36176
Average	147	228	167	290	832	
Poor	47	45	48	80	220	

- 3.9 Where the customer provides an explicit insight with a poor rating, this information is used and converted into a formal complaint or enquiry to ensure that appropriate responses and actions are taken, and monitored under the standard complaint response times and processes.

4. NUMBER OF COMPLAINTS TO KCC

- 4.1 A **complaint** is an expression of dissatisfaction, whether justified or not and however made, about the standard or the delivery of a service, the actions or lack of action by the Council or its staff which affects an individual service user or group of users. This is consistent with the definitions used by other local authorities.
- 4.2 The emphasis in the complaints procedure is to ensure that staff are equipped and empowered to act decisively to resolve complaints at a local level. The aim is that we work harder to resolve issues at the first point of contact. By recording accurately where things went wrong, we can use that information to improve service delivery and ensure that customers receive consistently good service regardless of how they choose to access them.
- 4.3 The 'Poor' GovMetric feedback is not counted towards the overall total for formal complaints. Customers are advised of the complaints procedure if they wish to make a formal complaint. However GovMetric feedback gives an immediate opportunities to problem solve.

- 4.4 The below table compares the number of complaints received in 2014/15 with those received in 2013/14 by service.

Service	2013/2014	2014/2015
Highways and Transportation	1069	1196
Adult Social Services	387	537
Finance and Procurement	54	373
Specialist Children's Services	327	228
Libraries, Registrations and Archives	205	199
Waste Management	211	118
Adult Education	103	76
Education Services	24	67
Country parks	23	49
Trading Standards	5	20
Schools Personnel Service	13	20
Property and Infrastructure	9	13
Community Safety	30	9
KSAS	30	9
Gateways and Contact Point	54	9
Kent Scientific Services	14	8
Grads Kent	1	4
Kent Sport	6	3
Communications and Engagement	3	3
Public Right of Way	7	1
Kent Drugs and Alcohol Team	3	1
Public Health	1	1
Information Technology	2	0
Legal	5	0
Other	1	0
Total Complaints	2,587	2,944

- 4.4 In 2014/15 **2,944** complaints were recorded compared with 2,587 for 2013/14, this equates to an **increase of 14%** in complaints recorded.
- 4.5 Appendix A gives an overview of the types of complaints received by the six services who have received the highest volumes of complaints during 2014/15. It should be noted that these services also have the highest number of customers.

5. REASONS FOR COMPLAINTS

5.1 Irrespective of service or business type, the main grounds for complaints during 2014/15 tend to fall under one of the following themes (not in order of prevalence):

- Poor communications
- Quality of service
- Delivery of service
- Availability of KCC services
- Changes to service delivery due to cost saving measures
- Policy decisions
- Staff behaviour
- Timeliness

6. COMPLIANCE WITH STANDARDS

6.1 **KCC** is committed to acknowledge any complaints received within 3 working days and to provide the customer with a response within 20 working days. As a whole KCC **acknowledged 91%** and **responded to 86%** of complaints within corporate timescales. This compares to last year's responses which are notably similar at 96% and 83% respectively.

6.2 Adult Social Services

There is only one statutory timescale for adult social care complaints and this is the acknowledgement of the complaint, which must be provided to the complainant within three working days of receipt. 86% of these complaints were acknowledged within the statutory timescale of three working days. 67% of complaints were responded to within a complaint plan timeframe of 20 working days. The average response time for statutory complaints within a 20 working day timeframe is 19 working days

Complex cases that require either an off-line/external investigation or a joint response with health colleagues are identified at the beginning of the complaint and a longer timeframe is negotiated. The period for responding to the complaint is agreed with the complainant on a case by case basis depending on the nature and complexity of the complaint and the desired outcome. This can be anything from 5 to 65 days

Within Adult Social Care there is no statutory response timeframe to be measured against as the legislation allows for the response timescales to be agreed with the complainant.

6.3 Children's Social Services

The Local Authority must consider and try to resolve Stage One complaints within 10 working days of the start date for Children's Social Services

complaints. This can be extended by a further 10 working days where the complaint is considered to be complex.

Timescales have been extended for particularly difficult or complex cases, for example when more than one agency or service is involved or when cases are involved in other processes such as court proceedings. Performance against timescales has continued to improve. In 2014/15, 79% of statutory complaints were completed within 20 working days, compared with 64% in 2012/13 and 75% in 2013/14.

The Local Authority should consider Stage Two complaints within 25 working days of the start date (the date upon which a written record of the complaints to be investigated has been agreed) but this can be extended to 65 working days where this is not possible.

7. CUSTOMER COMMUNICATIONS CHANNELS

7.1 Information on 'How to complain' is available on our website and on our Complaints, Comments and Compliments leaflets. The public can now provide KCC with feedback in a number of ways.

7.2 The breakdown below indicates by percentage which channel customers have chosen to communicate feedback (Compliments, comments & complaints excluding GovMetric) during 2014/15.

Comment cards count for 62% of all feedback received for libraries in this year, whereas 50% of health and social care customers opted to write letters.

The breakdown differs on previous years as this relates to the total of feedback received rather than focusing on complaints. This provides insight in to how customers currently prefer to communicate according to the type of feedback they are leaving. For example customers in general prefer to call with complaints but email compliments.

- 33% Email
- 27% Phone
- 21% Letter
- 12% Comment Card
- 5% Online
- 1% Face to face
- 1% Other

7.3 It is essential to ensure that all channels remain open and effective so that customers can choose how they contact us. It should be noted, however, that it can be more difficult for staff to record comments, compliments and complaints when they are given face-to-face, although it may be more possible to resolve the situation there and then with the complainant.

8. THE LOCAL GOVERNMENT OMBUDSMAN COMPLAINTS REVIEW 2014/15

8.1 Overview of Ombudsman

8.1.1 In cases where a customer is unhappy with the responses received about their complaint from the Council they can exercise their right to involve the Local Government Ombudsman. The Ombudsman will investigate cases where a customer has exhausted the Council's own complaints policy and feel that their case has not been appropriately heard or resolved.

8.1.2 The Ombudsman can look at complaints about things that have gone wrong that has caused problems for the Customer, either,

- in the way in which a service has been delivered
- when a service has not been delivered at all, or
- in the way a decision has been made.

8.1.3 Each year, in June/July, the Local Government Ombudsman issues an annual review to each local authority. In her letter and the summary of statistics to accompany this, she sets out the number of complaints about that authority that her office has dealt with.

8.1.4 The annual review statistics are publically available, allowing councils to compare their performance on complaints against their peers; copies of the Annual Review letter as well as any published Ombudsman are issued to the Leader of the Council and Head of Paid Service/Chief Executive to encourage more democratic scrutiny of local complaint handling and local accountability of public services.

8.2 Local Ombudsman classification and reporting

8.2.1 The Local Government Ombudsman has introduced two classifications of query made to the council. The first is an 'enquiry' which they normally ask the Council to respond to within 5 days. This classification includes a question relating to whether a complainant has exhausted the Council's own complaints policy.

8.2.2 The rationale is that an early clarification will potentially reduce and number and time spent handling 'premature complaints' – when the complainant has not exhausted the Council's procedure or where fault is not likely to be found.

8.2.3 The second classification is a 'complaint' in which the Ombudsman has chosen to fully investigate the claim and will give the council 28 Calendar days or 20 working days to respond to its questions.

8.2.4 Decision statements made in 2014/15 will be published - website <http://www.lgo.org.uk/publications/annual-reviews/> - three months after the date of the final decision. The information published will not name the complainant or any individual involved with the complaint. Cases in which the

complainant, despite redaction of names, can be easily identified are not published.

8.2.5 This year's letter was accompanied by a report written by the Local Government Ombudsman reviewing how complaints are handled by Local Authorities. It was noted that 'More than 50% of councils publish data about their complaints for public consumption above the statutory requirement to report to cabinet annually. However, there were still 41% of councils that did not, and we would encourage more open access to information on how complaints are being managed so the public can make better informed decisions about public services.'

8.2.6. The Ombudsman, alongside the Local Government Association has created a workbook and e-learning package, as well as establishing a Councillors Forum. The forum aims to help Local Government Ombudsman to understand the needs of councillors and to help them to become champions for learning from complaints.

8.3 KCC Performance – Ombudsman complaints

8.3.1 It should be noted that there will be discrepancies between the volume recorded by the Local Government Ombudsman and the authority. This is due to the LGO recording complaints that it does not progress to Kent County Council, as it is able to resolve the issue at first point of contact, either through referral or it is identified as out of jurisdiction.

8.3.2 During 2014/15 KCC received a total of 205 complaints and enquiries, which includes 75 in which the customer was directed back to the Council to seek initial resolution. This is a slight increase on 2013/14, when Council received 194 complaints and enquiries, including 44 in which the customer was directed back to the Council to seek initial resolution.

For our population size the volume of complaints is not concerning. We need to focus on those complaints that are upheld to ensure that lessons are learned.

The authority did not receive any Maladministration Reports in this year, which is seen as a positive for the authority.

8.3.3 The Ombudsman's report noted that the national average that the Ombudsman up held is 46% of complaints they investigated, Kent County Council's average is 48.5%.

8.3.4 The average number of working days taken KCC to respond to a 'Complaint' was 9 days a reduction on last year's performance of 12 days.

8.3.5 The average number of working days to respond to a request for further information is 18, which is lower than last year's 21 working days. Conversely, the average number of calendar days taken to respond to an 'Enquiry' is within target at just 5 days. This difference is due to the fact that the

Ombudsman's office requires far less information when the Complaint is at their Enquiry stage.

8.3.6 The largest proportion of complaints received by the Ombudsman, 96 of the total 205 (47%) were under the category of Education & Children's Services. 29 related to Education & Home to School Transport appeals, the authority statistically has one of the largest volumes of appeals relating to schools admissions, however only 6 of these complaints were upheld in 2014/15.

Local authority report – Kent County Council

For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/publications/annual-report/note-interpretation-statistics/>

Complaints and enquiries received

Year	Adult care services	Benefits and tax	Corporate and other services	Education and children's services	Environmental services and public protection and regulation	Highways and transport	Housing	Planning and development	Total
2013/14	47	1	6	102	10	23	1	4	194
2014/15	60	0	8	96	14	25	1	1	205

Decisions made

Local authority	<u>Detailed Investigation Carried out</u>		Advice given	Closed after initial Enquiries	incomplete/Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
2013/14	36	41	1	57	12	44	191
2014/15	32	34	3	55	6	75	205

9. COMPENSATION

9.1 In 2014/15, £119,503 was paid in compensation, settlements, changes to the amount we charge and waived charges as a result of complaints to the organisation this includes;

- £58,984 adults which has been paid or waived as part of local resolution
- £33,819 children's which has been paid or waived as part of local resolution

- £2,765 has been paid out by other services including Libraries, Community Skills & Learning and Property & Infrastructure.
- £23,935 additional payments following Local Government Ombudsman Decisions found against KCC.

It is important to note that monies paid out during the 2014/15 financial year may relate to complaints recorded in previous years. This is due to the time that elapses between the date the complaint was lodged and achieving resolution.

9.2 This is an increase of £26,082 on 2013/14 when £93,421 was paid out.

10. LEARNING THE LESSONS AND SERVICE IMPROVEMENTS

10.1 Complaints are a valuable resource helping us to understand where improvements could be made to the customer experience. These improvements can be changes to procedures or processes, improvements in communications or improvements to the quality of service. The below outlines examples of where improvements have been made as a result of a complaint being received;

10.2 Improving communications

Following feedback received by our customers, Kent County Council revisited the wording of the Speed Awareness notice letter that enabled customers to sign up for a Driver Diversionary Course. The letter caused confusion and resulted in customers calling the Contact Centre for further clarification.

As a result of amending the letter to make it clearer for customers the contact centre has received an 86% reduction in the number of calls about the letter.

10.3 Improvements to service experience

Kent County Council ran a number of workshops to review the way childcare placements booked training services. We undertook customer journey mapping to document and understand the then current process and to inform how best to ensure we add value to the customer experience. As a result of feedback from customers who attended, more efficient and customer focused booking process was designed and implemented.

11. LEVELS OF COMPLAINTS TO THE STANDARDS COMMITTEE (MEMBER COMPLAINTS)

Complaints recorded in 2014/15

- 11.1 During 2014/15 the Monitoring Officer has responded to 22 complaints of alleged misconduct of the breach of the Elected Member Code of Conduct. All of the complaints were dismissed.

Number of Complaints		Outcome
01/04/13 – 31/3/14	01/04/14 – 31/03/15	
13	22	No Action Dismissed by the Monitoring Officer

12. Kent County Council Audit of Customer Feedback

- 12.1 Kent County Council Internal Audit department carried out an audit 'to provide assurance that all customer feedback is recorded, reported and responded to appropriately, with lessons learnt used to improve services through demonstrable outcome.
- 12.2 The report 5 areas recommended for improvement, 1 high risk, 3 medium risks and 1 low risk.
- 12.3 An action plan has been drawn up to address the risks identified. This includes;
- Establishing a Customer Feedback Staff Forum who will share lessons learned from customer feedback, including Local Government Ombudsman complaints and use them to inform service improvements.
 - Creation of a 'Voice of the Customer' report which will be compiled and presented more regularly to management and members to highlight feedback more regularly.
 - Review the format of the annual feedback report, focusing more on lessons learnt and the nature of the feedback received. We will also explore alternative forums for the annual report before it reaches the Governance & Audit committee to maximise learning from the feedback received.
 - Review the Customer Feedback policy to reflect the organisation's ambition to become a commissioning authority. This will be in line with the

recent advice given by Local Government Ombudsman, National Audit Office and NHS England.

- Explore the potential for a common system to be deployed to support the management and reporting of Compliments, Comments and Complaints.
- Review how customer feedback information is reported internally to both management and members.

13. RECOMMENDATIONS

13.1 The Governance & Audit Committee is asked to note the contents of this report for assurance.

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Useful information:

It is a statutory requirement under the following items of legislation for local authorities to have in place a complaints and representations procedure:

- Children Act 1989 Representations Procedure (England) Regulations 2006
- The Local Authority Social Services and National Health Service Complaints (England) Regulations were published in February 2009 and came into force with effect from 1 April 2009. This procedure introduced a single approach to dealing with complaints for both the National Health Service and Adult Social Care.
- NHS & Community Care Act 1990 (section 50)
- Health & Social Care Act 2000
- Local Government Act 2000

Appendix A - Complaints Summary by Service 2014/15

The following table looks at type of complaints received by the services who received the highest volume of complaints in 2014/15. It should be noted that these services

Transportation and Highways	1196	<p>Highways saw an increase in the number of complaints this due adverse weather experience at the beginning of the year that resulted in higher volume of calls and complaints relating to drainage.</p> <p>In addition, a number of high profile policy changes including the 'Safe and Sensible Street Lighting' scheme and Kent Freedom Pass attracted a large volume of feedback from customers.</p>
Adult Social Services	538	<p>Complaints to Adult Social Services have increased over the last year. Customer feedback focused on disputed decisions, funding for care and the way in which the organisation communicated with customers and their relatives.</p>
Finance and Procurement	373	<p>Finance and Procurement saw a significant increase in complaints this year. This is following a change in what is defined as a complaint within the service, the complaints received are largely relating to decisions relating to claims made following pothole damage to customers' cars.</p>
Children Social Services	228	<p>The majority of complaints received this year were relating to children in care. Customers' complaints were largely about decisions made or KCC Policy.</p>
Libraries, Registration and Archives	199	<p>Complaints this year were largely due to customer behaviour in libraries. A number of other issues raised throughout the year included heating not functioning in some locations in the winter and printers not working.</p>
Waste Management	118	<p>Waste Management complaints largely related to decisions made and disagreements with KCC policies.</p>

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