

**GOVERNANCE AND AUDIT COMMITTEE**

**Wednesday, 27th April, 2016**

**2.00 pm**

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

**There will be a presentation for Members of the Committee on “Assurance on Managing Change” at 1.30pm.**







## AGENDA

### GOVERNANCE AND AUDIT COMMITTEE

**Wednesday, 27th April, 2016, at 2.00 pm**  
**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 D L Brazier, Mr S C Manion, Mr R A Marsh and Mr J E Scholes	Mr R J Parry (Vice-Chairman), Mr E E C Hotson, Mr A J King, MBE,
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**

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

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#### **UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting
2. Substitutes

3. Declarations of Interest in items on the agenda for this meeting
4. Minutes (Pages 7 - 20)
  - (a) Committee – 27 January 2016
  - (b) Trading Activities Sub-Committee – 29 February 2016 (For Information)
5. Committee Work and Member Development Programme (Pages 21 - 24)
6. Internal Audit and Counter Fraud Plan 2016-17 (Pages 25 - 78)
7. Internal Audit and Counter Fraud progress report (Pages 79 - 138)
8. Regional Growth Fund - Equity Investments (Pages 139 - 142)
9. RIPA Report on surveillance, covert human intelligence source and communications data requests carried out by KCC between 1 April 2015 and 31 March 2016 (Pages 143 - 160)
10. Treasury Management Update (Pages 161 - 172)
11. Change in Closedown process and revised accounting policies (Pages 173 - 182)
12. Updated Financial Regulations (Pages 183 - 224)
13. External Audit - Audit Plans for Kent County Council and Kent Superannuation Fund 2015-16 (Pages 225 - 266)
14. External Audit Planned Audit Fee 2016-17 (Pages 267 - 272)
15. Fraud Law and Regulations and Going Concerns Considerations (Pages 273 - 288)
16. Protocol relating to companies in which KCC has an Interest (Pages 289 - 304)
17. 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

**Tuesday, 19 April 2016**

*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.*

**KENT COUNTY COUNCIL****GOVERNANCE AND AUDIT COMMITTEE**

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 27 January 2016.

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

ALSO PRESENT: Miss S J Carey

OFFICERS: Mr A Wood (Corporate Director Finance and Procurement), Mr N Vickers (Head of Financial Services), Mr G Wild (Director of Governance and Law), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr R Patterson (Head of Internal Audit), Ms S Buckland (Audit Manager) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr P Hughes and Ms L Leka from Grant Thornton LLP UK.

**UNRESTRICTED ITEMS****1. Membership**

*(Item 2)*

The Committee noted the appointment of Mr D L Brazier in place of Mr J A Davies.

**2. Minutes**

*(Item 5)*

RESOLVED that:-

- (a) subject to two minor amendments, the Minutes of the Committee meeting held on 2 October 2015 are correctly recorded and that they be signed by the Chairman; and
- (b) the draft Minutes of the Trading Activities Sub-Committee meeting held on 23 November 2015 be noted.

**3. Committee Work and Member Development Programme**

*(Item 6)*

- (1) The Head of Internal Audit proposed an updated forward Committee Work Programme and Member development Programme following revised best practice guidance in relation to Audit Committees.
- (2) RESOLVED that approval be given to the proposed forward Committee Work and Member development programme to January 2017.

#### **4. Corporate Risk Register**

*(Item 7)*

(1) The Director of Strategy, Policy, Relationships and Corporate Assurance presented the register together with an overview of the changes since it had last been presented and an outline of the ongoing process of monitoring and review.

(2) Comments made by Members of the Committee were that consideration should be given on whether to upgrade the Current Likelihood of Risk CRR 4 to (4) "Likely"; on whether Risk CRR 17 should be split into smaller sections; and on whether CRR 22 should include the risk of other Local Authorities not accepting KCC's Unaccompanied Asylum seeking children (UASC) referrals. A more general comment was made that consideration should be given to diverting resources from prevention to contingency planning in respect of cybercrime.

(3) RESOLVED that subject to the comments set out in (2) above, the assurance provided in relation to the development, maintenance and review of the Corporate Risk Register be noted.

#### **5. Review of KCC Risk Management Strategy, Policy and Programme**

*(Item 8)*

(1) The Director of Strategy, Policy, Relationships and Corporate Assurance presented the revised draft Risk Management Policy and Strategy for approval. He explained that the proposed amendments were minor in nature as they related to structural changes within the County Council.

(2) RESOLVED that approval be given to the Risk Management Policy and Strategy for the year 2016.

#### **6. Treasury Management 6 Month Review 2015/16**

*(Item 9)*

(1) Miss S J Carey presented the Treasury Management 6 Month Review on behalf of the Deputy Leader and Cabinet Member for Finance and Procurement. She drew attention to the successful recovery of the deposits made in the Icelandic Banks.

(2) RESOLVED that:-

(a) Mr Nick Vickers and his Team be thanked for their perseverance leading to the successful recovery of the deposits made in the Icelandic Banks; and

(b) approval be given to the Treasury Management 6 Month Review report for submission to the County Council.

## **7. Debt Management**

*(Item 10)*

(1) The Deputy Cabinet Member for Finance and Procurement, Miss S J Carey and the Head of Financial Services reported on the County Council's debt position. They explained that the report had been structured in such a way that the Sundry Health debt was separated from that of the various Directorates and client related debt. .

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

## **8. Update on Savings Programme**

*(Item 11)*

(1) The Corporate Director of Finance and Procurement reported on progress towards the 2015/16 and 2016/17 budget savings. He explained that it was intended that by the time that the final budget was released in February 2016 there would be no Red (R) (High Risk) savings identified within it.

(2) RESOLVED that progress on the 2015/16 and 2016/17 revenue budget savings be noted for assurance.

## **9. Annual Review of the Committee Terms of Reference**

*(Item 12)*

(1) The Head of Internal Audit reported proposed minor amendments to the Committee's Terms of Reference.

(2) RESOLVED that approval be given to the minor amendments to the Committee's Terms of Reference which are appended to these Minutes.

## **10. Future appointment of External Auditors**

*(Item 13)*

(1) Mr P Hughes from Grant Thornton UK LLP informed the Committee that he had an Interest in this particular item and that he would take no part in its discussion.

(2) The Head of Internal Audit detailed the changes to the arrangements for appointing External Auditors at the conclusion of the 2017/19 audits, following the closure of the Audit Commission and the end of the transitional arrangements. He outlined the three options available to the Council, indicating a preference for Options 2 and 3 at this stage.

(3) RESOLVED that the future implications for external audit procurement arrangements be noted and that a further update report be presented to the Committee at its meeting in July 2016.

## **11. External Audit Update January 2016**

*(Item 14)*

(1) Mr P Hughes from Grant Thornton UK LLP reported on progress on delivering their responsibilities for 2015/16 as well as the emerging issues set out in the report.

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

## **12. Effectiveness of Internal and External Audit Liaison**

*(Item 15)*

(1) The Head of Internal Audit summarised the effectiveness of the liaison arrangements between Internal and External Audit. He stated that liaison was working effectively, with both signing up to the six procedural bullet points set out in the Appendix to the report.

(2) Mr P Hughes from Grant Thornton UK PLC stated that he was in agreement with the content of the Head of Internal Audit's report.

(3) RESOLVED that the annual update on liaison arrangement between Internal and External Audit be noted for assurance together with the protocol set out in the Appendix to the report.

## **13. Internal Audit and Counter Fraud Progress Report**

*(Item 16)*

(1) The Head of Internal Audit summarised the outcomes of Internal Audit and Counter Fraud activity for the 2015/16 financial year to date. He confirmed that he would report to the Committee on any matter that was a significant risk to the County Council.

(2) RESOLVED that approval be given to the Anti-Money Laundering Policy without amendment since it was last agreed in January 2015 and that the following be noted:-

- (a) progress and outcomes against the 2015/16 Audit Plan and relevant indicators;
- (b) progress and outcomes in relation to Counter Fraud activity;
- (c) Management's performance in implementing agreed actions from previous audits;
- (d) the overall assurances provided in relation to the Council's control and risk environment as a result of Internal Audit and Counter Fraud work completed to date;
- (e) the proposed service enhancements and emerging plans for 2016/17; and
- (f) the positive assurance around the current anti-money laundering Policy, following internal review.



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) To approve the appointment and remuneration of External Auditors in accordance with relevant legislation and guidance, and the function is independent and objective. That there is a robust external audit plan to ensure the necessary scrutiny and assurance in relation to obligations for an audited statement of accounts.
- (e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- (f) On behalf of the County Council provide assurance that the 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.

## ***Responsibilities***

### **Risk Management and Internal Control**

The Committee should:

- Review annually the Council's Risk Management Policy and Procedures to ensure they remain up to date and relevant;
- Review the Council's Corporate Risk Register every six months to assess the effectiveness of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks;
- Review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of the planned actions to mitigate the risks identified;
- Commission investigations into any matter of concern within the Terms of Reference of the Committee, consider the findings thereof and make appropriate recommendations to the Council;
- Ensure appropriate action is taken in response to recommendations arising from any external audit, internal audit, operational compliance or business risk report to monitor such action, making appropriate recommendations to the Council;
- Ensure that any significant partnership that the Council enters into has appropriate Governance and Risk Management arrangements, and that any risk to the Council from the Partnership is minimised;
- Consider the Annual Risk Management Report and assess the impact of the findings on the Annual Governance Statement;
- Review regular monitoring reports on treasury management activity and significant risks.

### ***Corporate Governance***

The Committee should:

- Ensure that the Annual Governance Statement (including the list of significant issues for action in the ensuing year) is prepared in accordance with the statutory requirements and guidance, properly reflects the risk environment, and monitor progress on the significant issues and actions identified in the Statement;

- Review the Council's key financial governance procedures i.e., Financial Regulations, Schemes of Delegation, the Procurement Policy and the Treasury Management Policies, and recommend any necessary amendments;
- Review the Council's Code of Corporate Governance and make recommendations to Council to ensure that it remains relevant to the Council's work and remains in compliance with best practice and legislation;
- Consider issues referred by the Head of Paid Service, Corporate Director of Finance and Procurement, Monitoring Officer, any Council body or appropriate external party within the remit of these Terms of Reference;
- Monitor the Council's compliance with its own published standards and controls;
- Make recommendations to the Council on amendments to the Constitution to ensure compliance with standards of financial probity and stewardship;
- Consider arrangements made by the Superannuation Fund Committee for effective governance of the Kent Pension Fund.

### ***Internal Audit***

The Committee should:

- review annually the Internal Audit Strategy, ensuring that its Annual Plan addresses the key risks of the Council, recommending changes and additions as necessary;
- Review at each meeting of the Committee progress against, and changes to, the Annual Plan;
- Review at each meeting of the Committee the findings of Internal Audit work and the adequacy of management response to their findings;
- Review at each meeting of the Committee the implementation by officers of agreed "High" priority Internal Audit recommendations, seeking explanations from those responsible where implementation has not been achieved;
- Consider the results of the annual benchmarking and Key Performance Indicator results for Internal Audit;
- Assess the implications of the Internal Audit Annual Report on the Council's risk management, control and governance processes;
- Annually assess the co-operation between External and Internal Audit and other inspection agencies or relevant bodies;
- Approve the Terms of Reference and Charter of Internal Audit.

### ***External Audit***

The Committee should:

- Approve on behalf of the Council the appointment of the External Auditor selected by the Audit Commission;
- Approve the annual External Audit plan and fee, ensuring that non-mandated work is proportionate, relates to recognised risks of the Council and takes account of the work of Internal Audit or other assurance activities;
- Review at each meeting of the Committee progress against, and changes to, the External Audit plan and fee;
- As “those charged with governance”, receive the Annual Governance Report and the Annual Audit Letter and monitor Council’s response to the External Auditor’s findings and the implementation of external audit recommendations.

### ***Financial Reporting***

The Committee should:

- Approve the Statement of Accounts on behalf of the Council, specifically considering the suitability of accounting policies and treatments and any changes to these; areas of major judgement; and any significant issues or amendments resulting from the audit;
- Ensure that the Kent Pension Fund Accounts, and summary extracts in the Council’s Accounts, have been prepared in accordance with recommended practice, and statutory requirements.

### ***Fraud***

The Committee should:

- Regularly review the Council’s Anti-Fraud and Anti-Corruption strategies;
- Regularly review the Council’s procedures for handling allegations from whistleblowers;
- Receive details of the findings of investigations resulting from either detected fraud or allegations made under the whistleblowing arrangements.

### ***Membership***

The membership of the Committee shall be 15 non-executive Members (Conservative 8; UKIP 3; Labour 2; Liberal Democrat 1; Independents 1).

### ***Rights and Access***

The Committee may procure specialist ad-hoc advice from officers or from suitably qualified external sources.

The Head of Internal Audit and the representative of External Audit will have unrestricted and confidential access to the Chairman of the Committee.

### ***Meetings***

The Committee will meet at least four times a year. The Chairman may convene additional meetings if required.

The quorum for Committee meetings is one third of its total voting membership.

The Committee may still validly exercise its functions even if Members have not been appointed to all the places on it.

### ***Attendees***

The Committee will normally be attended by the Corporate Director of Finance and Procurement, the Director of Governance and Law, the Head of Internal Audit, the Director of Strategy, Policy, Relationships and Corporate Assurance /Corporate Risk Manager and a representative of External Audit.

The Committee may request that any other Member or Officer attend to assist with its discussions on any particular issues.

### ***Work of other Committees***

In all of the above, the Committee will strive to develop effective liaison with the following:

- the Standards Committee with regard to matters of ethical governance;
- the Scrutiny Committee – to complement but not to duplicate the exercise of their role in checking compliance with Council processes and policies in reviewing decisions and actions;
- Cabinet Members, in particular those whose portfolios include executive functions related to the matters covered by these Terms of Reference;
- the Council, especially when developing the Council's Code of Corporate Governance.

### ***Training and Development***

The work of the Members of the Committee will be supported by a training and development programme consistent with the responsibilities to be discharged.

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## GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB - COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub - Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Monday, 29 February 2016.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman) and Mr C P D Hoare

ALSO PRESENT: Mr R H Bird and Mr D Smyth

IN ATTENDANCE: Mr A Wood (Corporate Director Finance and Procurement), Miss E Feakins (Chief Accountant), Ms B Gibbs (Accountant), Mr R Patterson (Head of Internal Audit) and Mr A Tait (Democratic Services Officer)

### UNRESTRICTED ITEMS

#### 1. Minutes - 23 November 2015

(Item 2)

RESOLVED that the minutes of the meeting held on 23 November 2015 are correctly recorded and that they be signed by the Chairman.

#### 2. Statutory Accounts for companies in which KCC has an interest

(Item 4)

(1) The Chairman informed the Committee that his company had acted for minority shareholders in *Digital Contact Ltd*. Whilst this did not constitute a disclosable pecuniary interest, he would not participate in any detailed discussion on that company's accounts.

(2) The Chief Accountant reported on each of the statutory accounts for those entities in which KCC had an interest and in which it had purchased shares.

(3) The Chief Accountant explained that the reason that no accounts for the *TRICS Consortium Ltd* were available was that it had only recently been incorporated and that its first accounts would not be due until June 2016. She also drew the Sub-Committee's attention to two entities which did not appear after having done so in 2015. These were *Business Support Kent Community Interest Company* which had entered administration in April 2015 and the *North Kent Architecture Centre* which no longer listed KCC as a member in its articles.

*Following the meeting, the Chief Accountant explained that prior to the centre being an "independent not-for-profit organisation" it had been a nominating organisation. KCC had a right to appoint a director but this was not a requirement. On formation of an "independent not-for-profit organisation" KCC's formal association had come to a natural conclusion.*

(4) The Sub-Committee asked that the Cabinet Portfolio Holder be invited to attend the next meeting of the main Committee in order to answer questions on a report explaining KCC's investment strategy in respect of the Investment Companies in which KCC had an interest. This would include an explanation of the grounds for investing in companies which were showing a loss.

(5) RESOLVED that subject to paragraph (4) above, the latest available Statutory Accounts for those companies in which KCC has an interest be noted for assurance.

### **3. Consolidated Commercial Services 2014/15**

*(Item 5)*

(1) The Corporate Director of Finance and Corporate Procurement explained that Commercial Services consisted of three entities. These were the "Teckel" company which was able to trade with other local authorities, the "section 95" company which could trade more widely, and a large amount of turnover which went through internal Commercial Services and not through either of its companies. Considerable discussion had taken place on how best to report the consolidated Commercial Services accounts, and following publication of the report, a suggestion by Mr Bird would be further considered by the Cabinet Portfolio Holder. He explained that Commercial Services had a trading surplus for the year of £5.5 m and that following a dividend of £6.1m to KCC this had reduced to a deficit of £ 575,000

(2) The Chief Accountant introduced the consolidated Commercial Services accounts for 2014/15. She explained that the reason the combined turnover figure for the two companies was not the total shown for the parent company was due to consolidation, including the removal of any elements which reflected any inter-company arrangements.

(3) The Sub-Committee agreed to the suggestion of the Corporate Director of Finance and Procurement to include an Exempt report on Commercial Services' entire accounts for 2015/16 in February 2017, including the Laser business (which was not part of either company). This would include the reasons that such a high proportion of the Commercial Services turnover remained in house.

(4) In response to Members' comments that they were considering 17% of the accounts whilst 83% of them were not shown, The Chief Accountant offered to provide the summary spreadsheet of the entire Commercial Services accounts to all Members present.

(5) The Head of Internal Audit confirmed that Commercial Services' system of financial control had improved over recent years and that he had confidence in their efficiency.

(6) RESOLVED that the latest available Statutory Accounts for Commercial Services be noted for assurance and that in future years, an Exempt report on the entire Commercial Services accounts will be presented to the Sub-Committee.



**4. East Kent Opportunities LLP**  
*(Item 6)*

RESOLVED that the content of the report be noted for assurance together with the East Kent Opportunities LLP Annual Report and Financial Statements for 2014/15 as set out in the Appendix to the report.

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

To: Governance and Audit Committee – 27<sup>th</sup> April 2016

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

Classification: Unrestricted

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**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**

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### **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 April 2017. 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 third and final 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. We will be consulting with Members over the programme for the remainder of 2016/17 and 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	Apr - 16	Jul - 16	Oct - 16	Jan - 17	Apr - 17
<b>Secretariat</b>						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	RP	✓	✓	✓	✓	✓
Member Development Programme	RP	✓		✓	✓	✓
<b>Risk Management and Internal Control</b>						
Corporate Risk Register	RH		✓		✓	
Review of the Risk Management Strategy, Policy and Programme	RH				✓	
Report on Insurance and Risk Activity	NV		✓	✓		
Treasury Management quarterly report/six monthly review	NV	✓		✓	✓	✓
Treasury Management Annual 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	✓				✓
<b>Corporate Governance</b>						
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		✓		✓	
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				

Committee Work Programme

Appendix 1

Category / Item	Owner	Apr-16	Jul-16	Oct - 16	Jan - 17	Apr - 17
<b>Internal Audit and Counter Fraud</b>						
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				✓	
<b>External Audit</b>						
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	✓				✓
<b>Financial Reporting</b>						
Statement of Accounts & Annual Governance Statement	AW		✓			
Revised Accounting Policies	CH	✓				✓
Review of Financial Regulations	EF	✓			✓	✓

By: Robert Patterson – Head of Internal Audit  
To: Governance and Audit Committee – 20<sup>th</sup> April 2016  
Subject: **Internal Audit and Counter Fraud Plan 2016-17**  
Classification: Unrestricted

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**Summary:** This report details the proposed Internal Audit and Counter Fraud Plan for 2016-17

## **FOR DECISION**

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### **Introduction**

1. This report sets out the outline Internal Audit and Counter Fraud Plan for 2016-17 detailing a breakdown of audits and counter fraud work and an analysis of corresponding resources. It also contains an update to the Internal Audit Charter which defines the over-arching purpose, authority and responsibility of internal audit.
2. As a reminder, the Council is required under the Accounts and Audit Regulations 2015 to maintain an adequate and effective system of internal audit. This plan demonstrates the utilisation and coverage of such resources to discharge this responsibility and conforms to Public Service Internal Audit Standards
3. The outcomes from the 2016-17 plan will provide:
  1. Overall opinion and assurance to support the Annual Governance Statement
  2. Assurance against the mitigation of key corporate risks
  3. Coverage of critical systems of the Council including finance, contract / commissioning and IT assurance
  4. Integrated work around value for money and efficiency opportunities
  5. Underpinning counter fraud processes and activity as well as resources focused on reactive work such as special investigations
  6. On-going advice and information on controls to management
  7. Follow up on the progress on the implementation of issues and recommendations made

### **Development of the Internal Audit and Counter Fraud Plan**

4. The plan has been developed through a risk based planning process that has incorporated the following elements:
  - Discussions with Portfolio Holders, Corporate Directors (including CMT) and key Heads of Service on emerging risks and concerns.
  - Drawing on audit cumulative knowledge and experience to provide assurance over areas identified as high priority or high risk. These have been mapped,

where appropriate against the corporate risk register together with alternative sources of independent assurance

- Work to evaluate Corporate Governance which contributes to the Head of Internal Audit's overall assurance on corporate governance arrangements which in turn informs the Annual Governance Statement
  - Work to provide assurance to the Corporate Director of Finance and Procurement that controls are in place and operating effectively for a selection of key financial and contracting/ commissioning systems
  - ICT audit projects and assurance based on a needs and risk assessment undertaken by our outsourced partner, Moore Stephens
  - Management requests for assurance on particular areas of concern.
  - Previous cyclical audit work and the need for formal follow up
  - Pro – active fraud work and bringing to fruition the DCLG funded Kent Intelligence Network (KIN) in 2016/17
5. The combination of these elements has been the development of a plan that combines assurance over core systems and governance with key corporate risks. This is demonstrated in Appendix A.
6. In particular, the 'big audit themes' for 2016/17 will be :
1. Independent assurance over the delivery of savings and outcomes from selected transformation and efficiency programmes
  2. In tandem with the above, progress in managing demand for services against reducing resources
  3. Review of progress in developing consistent efficient and effective strategic commissioning frameworks across the Council
  4. Review of systems underpinning unaccompanied asylum seekers in response to increased pressures
  5. Top level governance review of G.E.T.
  6. IT audit of cyber security and related recovery
  7. Increasing the local taxation base through the use of the KIN with our partner local authorities
7. Excluded from Appendix A are:
- Internal audit coverage of the new and emerging LATCo's, more particularly Property Services and Legal
  - Existing audit work with Commercial Services where we remain the appointed internal auditor
  - Income generating and shared service work with Tonbridge and Malling Borough Council, Kent Fire, Parish Council's and audits of selected grants
  - Detail relating to the audit of local controls within establishments
  - On- going advice and 'watching briefs' on selected change programmes.
8. Outcomes will be reported quarterly to each meeting of the Governance and Audit Committee underpinned by a suite of key performance measures enshrined in the plan. This includes statutory 'transparency' reporting in relation to counter fraud activity.



## **Resources, Priorities and Timing**

9. The plan contains a resource of 2,930 productive audit and counter fraud days, dedicated to KCC specific assurance. The approved net expenditure budget for the unit is £903,300, a 4.5% reduction on the previous year's budget and is the sections contribution towards corporate savings. These costs are, of course, offset by fraud recoveries and value for money savings, which in 2015/16 (to date) totalled over £300,000.
10. We also have sufficient remaining DCLG grant to fund the KIN project until the end of 2017-18, after which it must prove itself as a self-sustaining project from the anticipated savings and recoveries.
11. The plan has been divided into 64 Priority 1 and 39 Priority 2 audits. The section will have a target to complete 90% of priority 1 and 50% of priority 2 audits. The latter providing the section with greater flexibility over lower priority audit coverage.
12. Following on from the take up and success of the peer auditor programme we intend to repeat this for 2016/17.

## **Internal Audit Charter**

13. In April 2016 the Public Sector Internal Audit Standards (PSIAS) were subject to revision and this has a minor impact on our Charter which sets out the purpose, authority and responsibility of internal audit. The revised version, encapsulating two minor changes to our mission and reference to core principles is shown in Appendix 2. It is good practice for an audit committee to approve revisions to the charter.

## **Recommendations**

14. Members are asked to
  - 14.1 Agree the proposed Internal Audit and Counter Fraud Annual Plan for 2016-17 as attached to this report
  - 14.2 Agree the minor amendments to the internal audit charter

## **Appendices**

- Appendix 1 Internal Audit and Counter Fraud Plan 2016-17***
- Appendix 2 Internal Audit Charter***

**Robert Patterson**  
**Head of Internal Audit**

**(03000 416554)**



# Kent County Council

Internal Audit and Counter Fraud Plan

April 2016 - March 2017

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## **1 Introduction**

1.1. This report details the planned activities and outcomes of Kent County Council's (KCC) internal audit and counter fraud service for 2016-17. It also acts as an outline business plan.

1.2. In particular it covers:

- The planned internal audit and counter fraud assurance activities for the year ahead and how they have been determined
- The resources behind the plan
- The performance targets for the service

## **2 Purpose and Charter**

2.1 The Council is required to maintain an adequate and effective system of internal audit under the Accounts and Audit Regulations 2015 and work to Public Sector Internal Audit Standards (PSIAS). In March 2015 the service was independently inspected and judged to be fully compliant with these standards. (A follow up inspection will also be undertaken during 2016).

2.2 Our accompanying charter and mission statement is "to support service delivery by providing an independent and objective evaluation of our clients ability to accomplish their business objectives and manage their risks effectively"

2.3 This is particularly important during a period of significant change and sustained demands on Council services.

### **3 Overall Outcomes**

- 3.1 In planning overall internal audit and counter fraud coverage, there is a focus of assurance activities on:
- Work to support the Council's Annual Governance Statement including an overall year end opinion
  - The ability to effectively manage critical risks. In particular audit activities have been mapped against top level corporate risks (see section 5)
  - Reviews of critical systems within the Council including finance, HR, contract/ commissioning and IT
  - Reviews of current operations examining the use of resources, value for money and supporting improvement
  - Embedding counter fraud processes and activity across KCC
  - The progress by management of implementing issues and improvements highlighted by internal audit and counter fraud work
- 3.2 The outcomes from this blend of work not only gives on- going independent evidence on the proper and secure operation of KCC but are also a fundamental foundation for good governance.

### **4 Constructing the Plan**

- 4.1 In drawing up the plan of activities for 2016/17 we have utilised:
- An established risk assessed audit register
  - Substantive associated assurance mapping, whereby complimentary evidence on internal control and risk management can be utilised
  - Wide consultation with key stakeholders including the Leader and Cabinet members and associated Corporate Management Team (CMT) Directors
  - Review of current corporate risk registers and inherent risks within change programmes and nationally imposed initiatives
  - Predetermined cyclical and risk based coverage of key financial and contracting systems

- Existing audit cumulative knowledge of systems, services and areas of control / fraud risk
- Knowledge and trends from counter fraud activity from 2015/16
- Required follow up work from previous audit and counter fraud work
- Consultation with external audit
- Management requests for audit reviews and consultancy work in areas of particular concern

4.2 In addition a separate risk based specialist ICT audit plan has been developed by our outsourced ICT audit provider, Moore Stephens.

4.3 Separate plans have also been developed for coverage of current or emerging arms length operations owned by KCC such as Commercial Services, property Services and Legal.

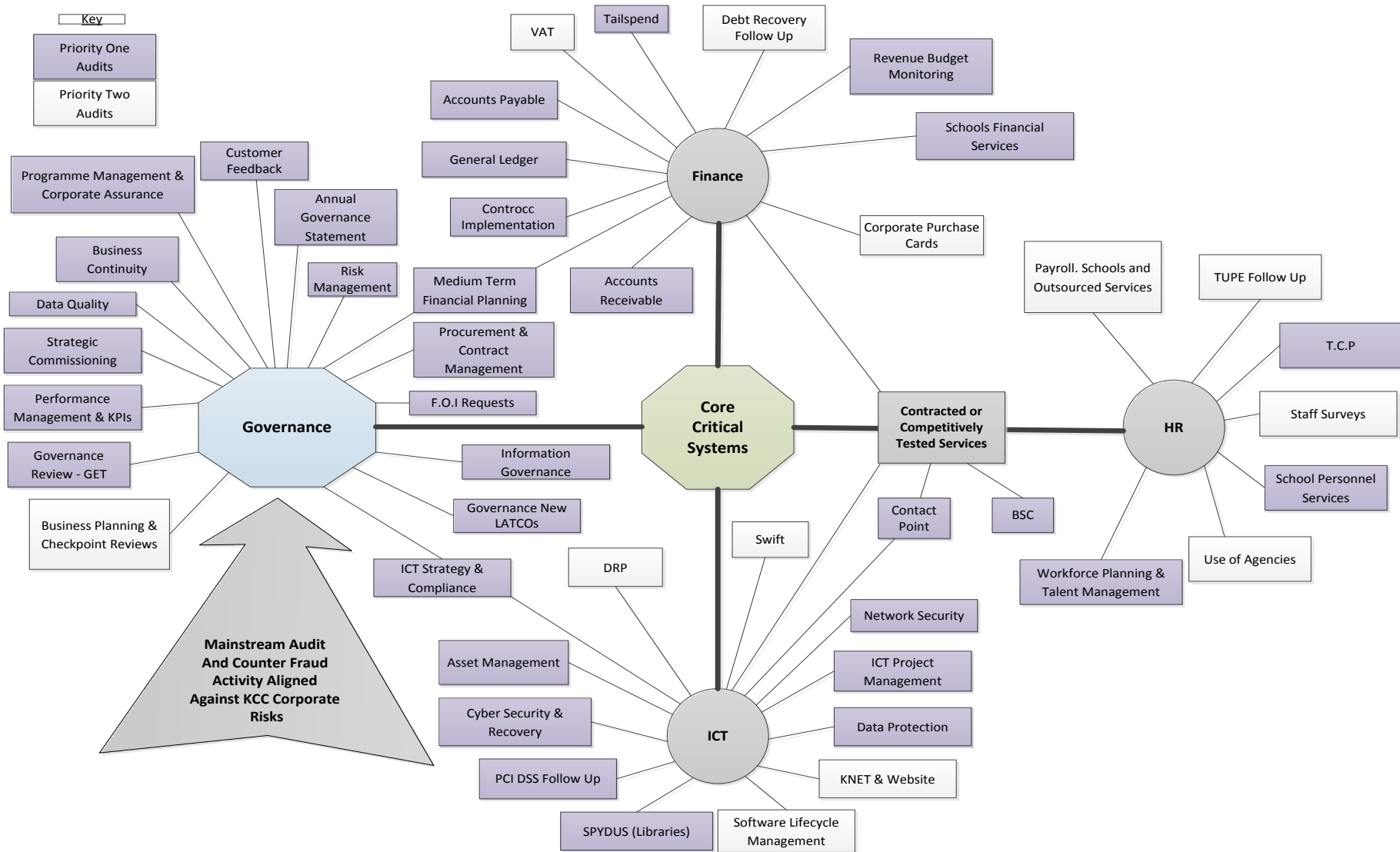
4.4 In 2016/17 the Kent Intelligence Network (KIN) and associated DCLG funded counter fraud initiatives will be brought 'on line' and a plan co-ordinating the work with our public sector partners to manage the outcomes and required investigative work and resource is being developed. In tandem with our District Council partners the project has the potential, even from the most pessimistic of assumptions, of delivering fraud savings of over £3 million per annum across the County.

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**5 Plan Summary** The coverage of the internal audit and counter fraud plan is shown schematically below in Figure 1 and in the more traditional tabular form in Appendix A. Appendix A also includes indicative timing for audits and the outline rationale for each review.

5.2 In particular Figure 1 maps more significant activities for 2016/17 against governance processes, key critical financial and non-financial systems as well as assurance towards corporate risks.

**Figure 1-** Integrated Internal Audit and Counter Fraud Plan 2016/17



**Figure 2** - Internal Audit and Counter Fraud work mapped against current corporate risks

**H**

**Management of Adult Social Care Demand**

- Clinical Governance (Public Health)
- SC Placements including Short Term (CPT)
- Disabled Services (Post Transfer)
- Carers Services & Assessments
- Independent Living Fund
- Dementia Care
- Support Directory - Signposting

**H**

**Management of Demand: Specialist Children's Services**

- Foster Care Follow Up
- Adoption
- Step Down to Early Help (SC)
- Step Up To SCS (EY)
- Clinical Governance (Public Health)

**M**

**Managing & Embedding Sustainable Change (Inc Commissioning)**

- Strategic Commissioning
- Programme Management & Corporate Assurance Follow Up
- Transformation & Delivery of Savings
- Contact Point (Agilysys Contract)
- Business Service Centre (BSC)
- TFM Contract Management Follow Up
- TFM Help Desk Follow Up
- ICES (SC) – New Contract & Contract Management
- GET – LED Street Lighting
- Procurement & Contract Management
- Business Planning & Checkpoint Reviews
- SEN Transport
- GET – Audit of Selected Provider/Contractor
- GET – Bulky Waste Contract

**H**

**Safeguarding – Vulnerable Adults & Children**

- Supervisions (SC) Follow Up
- Foster Care Follow Up
- Adoption
- Safeguarding – Education & Early Years
- Checks During Establishment Audits

**M**

**Health & Social Care Integration**

- BCF Follow Up & Verification Frameworks for KCC Spend

**M**

**Civil Contingencies and Resilience**

- Business Continuity (Including Care Home Closures/Impact of Living Wage)
- GET – New Integrated Community Safety Function/Major Incidents
- Cyber Crime & Recovery

**M**

**Access to Resources to Aid Economic Growth & Enable Infrastructure**

- RGF – Annual Cyclical Review
- GET – BDUK (Broadband Part 2)
- GET – Discovery Park Technology Ltd
- (Sect 106) Developer Contributions

**M**

**Welfare Reform Changes**

- Early Help – Step Up and Step Down
- Customer Feedback (Acting on Impact to Service Users)



**M**

Delivery of 2016/17 Savings

- Transportation & Delivery of Savings
- 0 – 25 Post Implementation Review(s)
- MTFP & Demand
- Public Rights of Way (Managing Risk)
- GET – LED Street Lighting

**M**

Data & Information Management

- As Per ICT and Governance Reviews on P.1

**H**

Implications of Increased Numbers of Unaccompanied Asylum Seeking Children (UASC)

- UASC & No Recourse to Public Funds (Inc Counter Fraud)

**H**

Future Operating Environment for Local Government

- Workforce Planning/Succession & Talent Management
- MTFP & Demand

Counter Fraud

- Kent Intelligence Network (KIN)
- Grants for the Voluntary & Community Sector – Policy & Practice
- Arrangements RE Bribery & Corruption
- Insurance
- Fraud Awareness
- Debt Fraud

Other

- Member Grant Scheme

**EY:**

- Troubled Families
- Pupil Referral Units
- NEET Strategy
- Elective Home Education
- EduKent
- Education Commissioning – Capital Plan
- Finance & Business Planning – Primary Schools
- Schools Improvement Team
- Education Trust – Watching Brief

- CLS
- Attendance & Inclusion
- New EY Data Systems
- Community Nurseries

Other

**GET:**

- Highways & Repairs – Process & outcomes
- Speed Awareness Courses
- Concessionary Fares
- Household Waste & Recycling Centre Contract
- Coroners Service
- Integrated Community Safety Function
- Kent Resilience Team

- 5.3 In total the plan has been divided into 64 Priority 1 and 39 Priority 2 audits and with an associated target of completing 90% of Priority 1 and a minimum of 50% for priority 2 audits. This allows the section greater coverage over lower priority audit coverage as well as a contingency for unplanned work and special investigations.
- 5.4 The plan has been shared with the Section 151 Officer and CMT. There are no areas or activities that we have been prevented from auditing
- 5.5 The totality of internal audit and counter fraud work builds into the Head of Audit's annual opinion to the Governance and Audit Committee on the overall adequacy and effectiveness of governance and risk management processes and internal controls. This internal audit opinion is a fundamental element of the Council's Annual Governance Statement.

#### Following Up on Previous Audits, Issues and Recommendations

- 5.6 A number of audits in the plan are formal follow ups of functions previously given limited assurance, (or worse). Clearly the aim of such audits is to provide assurance that weaknesses and failings have been rectified.
- 5.7 In addition we will undertake desk based follow up work on the implementation of issues agreed with management from all audits. For 2016/17 we have agreed an associated new process for formal follow up monitoring which re-enforces accountability with management through self-reporting and where we will undertake test checking of the accuracy of the responses received.

### **6 Resources, Priorities and Timing**

- 6.1 The plan contains a resource of 2,930 productive audit and counter fraud days , inclusive of the ICT audit contract dedicated to KCC assurance work. (Total days are 3,535, when including work for other bodies). The approved net budget for 2016/17 is £903,500 including KIN running costs of £80,000 which will be met by the DCLG grant for the next two years. The section's overall budget represents a 4.5% saving on the previous year.

- 6.2 The section is resourced on a 'hybrid' basis, being a mix of 19 FTE in-house staff, 2 FTE contractor staff and 200 outsourced days provided by Moore Stephens for ICT audit work.
- 6.3 Expressed as an overhead, audit and counter fraud costs represent 1% of total KCC expenditure (after excluding education) and an average coverage of 2.5 days per £ million spend. This compares favourably with past benchmarking with other local authorities.
- 6.4 For 2016/17 we plan to continue our peer auditor programme, utilising a pool of middle managers from across the County Council who will volunteer to work with us for no more than 5 days per year as part of their management development and gain a broader understanding of the Council and the role of good governance, control and risk.

## **7 Measuring Internal Audit and Counter Fraud Performance**

- 7.1 Appendix B details the series of performance targets we will perform against, based on the section being staffed at budgeted levels. These performance targets are a mix of input, output and outcome measures and incorporate national transparency indicators relating to counter fraud.
- 7.2 We will report our performance against these KPI's to each Governance and Audit Committee

## **8 In Conclusion**

- 8.1 Through the 2016/17 plan we aim to produce outcomes that provide timely and independent assurance work not only relating to internal controls but also against the key risks facing KCC and its related improvement and transformational plans. We aim to continue to be a high profile risk and business focused internal audit and counter fraud function continuing to add value in our work and assisting in improving operations across the Council.

## Appendix A – Annual Audit Plan



# Kent County Council

Internal Audit

Annual Audit Plan April 20165 – March 2017

To provide assurance on core aspects of internal control authority wide

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA01 2017	Business Continuity	20	1	4	To provide assurance that Business Continuity plans are adequate and effective to ensure the Council can continue to deliver priority services in the event of disruption. It is proposed that the audit for 16/17 will focus on KCC's ability to respond to provider failure.	<p><b>Authority Wide</b></p> <p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Mike Overbeke Group Head - Public Protection</p>
CA02 2017	Procurement and Contract Management	30	1	3	Core cyclical assurance. The scope of this audit will focus on tender specifications to provide assurance that specifications are robust, complete and appropriate to mitigate the risk of weak contracts due to failure to adequately address key elements at tender stage. The audit will include follow-up of issues raised as part of contract management audits undertaken in 2015/16.	<p><b>Authority Wide</b></p> <p>Andy Wood <i>Corporate Director of Finance and Procurement</i></p> <p>Emma Mitchell Director of Strategic Business Development and Intelligence</p> <p>Henry Swan <i>Head of Strategic Procurement</i></p>
CA03 2017	Tail-spend	20	2	1	To provide assurance that there are adequate controls in relation to frequent, low level spend to ensure that Value for Money opportunities are identified and focus on high value contracts does not result in poor performance, both in relation to quality of service and cost, across multiple low value contracts	<p><b>Authority Wide</b></p> <p>Andy Wood <i>Corporate Director of Finance and Procurement</i></p> <p>Henry Swan <i>Head of Strategic Procurement</i></p>
CA04 2017	Data Quality	15	1	2	To provide assurance on the reliability of xxx data quality and on-going arrangements to ensure data integrity.	<p><b>Authority Wide</b></p> <p>TBC dependent on system</p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA05 2017	Performance Management and KPI Reporting	20	2	4	A review of the Council's performance management arrangements to ensure they are fit for purpose. This will include a review of data quality for a sample of key performance indicators to ensure performance reporting is based on accurate information allowing robust decision making.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Emma Mitchell <i>Director of Strategic Business Development and Intelligence</i></p> <p>Richard Fitzgerald <i>Performance Manager</i></p>
CA06 2017	Annual Governance Statement 2015/16	15	1	1	A review of individual directorate governance returns to support the Annual Governance statement.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Geoff Wild <i>Director of Governance and Law</i></p>
CA07 2017	Risk Management	25	1	4	A review of the Council's risk management arrangements to support the Annual Governance Statement. The scope for 2016/17 is TBC.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i></p> <p>Mark Scrivener <i>Risk Manager</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA08 2017	Information Governance	15	1	3	To provide assurance on compliance with information governance standards on a cyclical basis.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Geoff Wild <i>Director of Governance and Law</i></p>
CA09 2017	Freedom of Information Requests	20	1	1	Core assurance on compliance with legislation	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Geoff Wild <i>Director of Governance and Law</i></p>
CA10 2017	Data Protection	20	1	1	Core assurance on compliance with legislation. Following the ICO's audit of Social Care this audit will undertake a 'deep dive' approach on other service areas.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Geoff Wild <i>Director of Governance and Law</i></p>
CA11 2017	Bribery and Corruption	20	1	1	To provide assurance that KCC policies and procedures are adequate in line with best practice guidance.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Geoff Wild <i>Director of Governance and Law</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA12 2017	Corporate Governance - KCC as a whole	25	1	4	A review of the Council's overall Corporate Governance Framework to support the Annual Governance Statement. The audit for 16/17 will focus on readiness for/compliance with the new Cipfa Framework.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Geoff Wild <i>Director of Governance and Law</i></p>
CA13 2017	Departmental Governance Review – GET	60	1	3	To provide assurance that the Governance Framework in place over the GET Directorate is adequate.	<p>Barbara Cooper <i>Corporate Director of Growth, Environment and Transport</i></p>
CA14 2017	Implementation of Strategic Commissioning Framework	75	1	4	Themed review of commissioning across KCC through assessing the level of implementation of the Council's strategic commissioning framework.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Emma Mitchell <i>Director of Strategic Business Development and Intelligence</i></p>
CA15 2017	Declarations of Interest	15	1	1	An annual data matching exercise comparing Companies House data with payroll, accounts payable and declarations of interest made via Employee Self Service to provide assurance that potential conflicts of interest have been declared and are being appropriately managed.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p>



Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA16 2017	Programme Management and Corporate Assurance Functions	15	1	3	A follow-up of the 2015/16 audit to provide assurance that there is appropriate oversight for change programmes across the Council, with timely, robust challenge of decisions.	<p><b>Authority Wide</b></p> <p><b>Programme Management:</b> All Corporate Directors</p> <p><b>Corporate Assurance:</b> David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i></p>
CA17 2017	Business change/ check point reviews	30	2		A series of short, focussed reviews at key points in programme/ project lifecycle - these will include checkpoint reviews of programmes within the portfolios led by the Corporate Assurance team as and when required.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i></p>
CA18 2017	Transformation and Change – Delivery of Savings and other outcomes	75	1	2	To provide assurance that transformation and change programmes are delivering sustainable savings and realising planned benefits/outcomes. The review will be KCC wide covering each of the transformation portfolios and will include consideration of how lessons learnt have been applied to later phases.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA19 2017	Staff Survey – response and actions	20	1	1	To provide assurance that KCC, as a responsible employer, has responded appropriately to issues identified through the results of the most recent staff survey.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i></p>
CA20 2017	Business Planning	25	2	2	To provide assurance on the implementation of the new business planning arrangements for 16/17 and consideration of links to KCC priorities, the strategic commissioning cycle and the longer term view. This audit will be undertaken with the audit of Medium Term Financial Planning to provide assurance on the alignment of financial and business planning.	<p><b>Authority Wide</b></p> <p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i></p>
CA21 2017	Payroll – outsourced contracts	20	2	1	To provide assurance that KCC as a provider delivers in line with contract terms and conditions and that any assumptions in relation to charging are robust ensuring that costs are recovered as a minimum to manage the risk of financial loss to KCC	<p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>
CA22 2017	Recruitment controls re TUPE transfer staff follow-up	10	2	4	Through follow-up of the 2015/16 audit this review will provide assurance that the Council has adequate controls in place to ensure employees that TUPE to KCC, have the right to reside and work in the UK, are appropriately qualified, references have been received and DBS checks have been completed. N.b. This audit is dependent on any TUPE of staff happening in 2016/17 to allow for testing.	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Paul Royel <i>Head of HR</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CA23 2017	Schools' Personnel Service	20	1	2	To provide assurance that KCC as a provider delivers in line with contract terms and conditions and that any assumptions in relation to charging are robust ensuring that costs are recovered as a minimum to manage the risk of financial loss to KCC	David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i>  Rebecca Spore <i>Director Infrastructure</i>  Jackie Turner-Robinson <i>Head of Business Service Centre</i>
CA24 2017	Workforce Planning inc succession planning and talent management	20	1	2	To provide assurance that workforce planning processes take account of risks in relation to loss of key resources and required outcomes from change/restructure, including focus on succession planning and talent management	Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i>  Paul Royel <i>Head of HR</i>
CA25 2017	TCP process	25	1	1	To provide assurance on authority-wide adherence to the required TCP process, including evidence of fair and equitable rating.	Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i>  Paul Royel <i>Head of HR</i>
CA26 2017	Recruitment – use of agencies	15	2	2	To provide assurance that adequate controls exist to ensure the quality of staff recruited and value for money achieved by both temporary and permanent staff being recruited through appropriate routes, i.e. through HR for permanent staff and through Connect2Staff for temporary placements, other than agreed exceptions.	Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i>  Paul Royel <i>Head of HR</i>
	<b>Total days</b>	<b>670</b>				

# 2. Core Financial Assurance

To provide assurance on core aspects of financial internal control

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CS01 2017	General Ledger	20	1	2	Cyclical review of key financial system, scope to include bank accounts.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Dominic Magner <i>Principal Accountant (FM Systems and Support)</i></p>
CS02 2017	Revenue Budget Monitoring	20	1	4	Cyclical review of key financial system, in particular this review will focus on the robustness of monitoring processes to provide assurance that budgets are adequately managed to achieve required savings.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Simon Pleace <i>Revenue Finance Manager</i></p>
CS03 2017	VAT	15	2	3	Cyclical review of key financial system	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Emma Feakins <i>Chief Accountant</i></p>
CS04 2017	Payments Processing	30	1	3	A key financial systems audit of the accounts payable system and iProcurement, including iSupplier. The scope will include the new No PO No Pay policy and prompt payment discounts as well as a follow up on actions taken to address the findings of the 15/16 audit.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Henry Swan <i>Head of Procurement</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CS05 2017	Accounts Receivable	20	1	3	Cyclical review of key financial system	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>
CS06 2017	Corporate Purchase Cards	15	2	1	Cyclical review of key financial system, scope to include potential risk of increased usage with the 'No PO, No Pay' initiative	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>
CS07 2017	Debt Recovery Follow-Up	15	2	2	Cyclical review of key financial system	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>
CS08 2017	Debt Fraud	15	2	2	This anti-fraud work will assess KCC's level of fraud risk in relation to debt and, dependent on the risks identified, will aim to provide assurance that controls adequately manage that risk.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
CS09 2017	Insurance	10	1	1	This anti-fraud work will assess KCCs arrangements for the prevention and detection of insurance fraud.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Lee Manser <i>Head of Insurance</i></p>
CS10 2017	Medium Term Financial Planning	25	1	2	To provide assurance on the financial planning arrangements in place to meet increased saving requirements while achieving KCC priorities. The scope will include a review of stakeholder consultation and engagement. This audit will be undertaken with the audit of Business Planning to provide assurance on the alignment of financial and business planning.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Dave Shipton <i>Head of Financial Strategy</i></p>
CS11 2017	Family Placement Payments – Controcc Implementation, Phase 2	25	1	4	Following the audit of Family Placement Payments in 2015/16 this audit will review implementation of Phase 2 of the Controcc Project; the scope will include review of system user awareness/training to give assurance over accuracy and timeliness of family placement payments.	<p>Andy Wood <i>Corporate Director of Finance &amp; Procurement</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>
	<b>Total Days</b>	<b>210</b>				

# 3. Risk / Priority Based

To provide assurance on areas identified as being high priority or exposed to greater risk

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
<b>3.1 Strategic and Corporate Services</b>						
RB01 2017	Contact Point - Agilisys	30	1	2	To provide assurance on the recently outsourced operations including contract management	<p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Emma Mitchell <i>Director of Strategic Business Development and Intelligence</i></p> <p>Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i></p>
RB02 2017	Business Services Centre	30	1	4	To provide assurance that appropriate commissioner and provider arrangements have been put in place and that the strategy and direction of the BSC are in line with expected benefits.	<p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Jackie Turner-Robinson <i>Head of Business Service Centre</i></p>
RB03 2017	Total Facilities Management –Contract Management Follow-Up	15	1	3	Following the 2015/16 audit undertaken to provide assurance over management of the three regional TFM contracts this audit seeks to provide assurance that actions agreed to address issues raised have been implemented effectively.	<p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>David Fettes <i>Head of Property Operations</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB04 2017	Total Facilities Management – property service desk Follow-Up	10	1	2	Following the 2015/16 audit undertaken to provide assurance over the Property Service Desk operation, provided for KCC under the TFM contract this audit seeks to provide assurance that actions agreed to address issues raised have been implemented effectively.	David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>  Rebecca Spore <i>Director of Infrastructure</i>  David Fettes <i>Head of Property Operations</i>
RB05 2017	Property – Disposal of assets	20	1	3	To provide assurance that disposal decisions are undertaken in accordance with authorisation levels defined in the Constitution and with due consideration for value for money and community impact.	David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>  Rebecca Spore <i>Director of Infrastructure</i>
RB06 2017	Grant administration follow-up inc Member Grant Scheme and Grants for VCS	20	1		Following a review of local administered grant schemes across the authority in 2015/16 to provide assurance that grants are validated, legitimate and spent appropriately this audit seeks to provide assurance that actions agreed to address issues raised have been implemented effectively.	David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>  Andy Wood <i>Corporate Director of Finance &amp; Procurement</i>  David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>
RB07 2017	Property LATCo – GEN2	20	1	3	To provide assurance on the arrangements for the new LATCO, including the Client/Provider relationship and monitoring achievement of planned outcomes	David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>  Rebecca Spore <i>Director of Infrastructure</i>
RB08 2017	Legal Services LATCo	15	1		To provide assurance on the arrangements for the new LATCO, including the Client/Provider relationship and monitoring achievement of planned outcomes	David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>  TBC



Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB09 2017	KNet and Website	20	2	1	To provide assurance that the content of both KNet and Kent.gov.uk are managed to ensure information is accessible, appropriate and up to date.	<p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p>
RB10 2017	Developer Contributions	20	2	4	<p>A review of developer contributions (Section 106) and Community Infrastructure Levy (CIL) payments to ensure that the controls in place are transparent, effective and comply with the Council's policies and procedures.</p> <p>This audit will follow-up on implementation of actions to address issues raised as a result of the 2014/15 audit and is dependent on progress being made on implementing a new/centralised system.</p>	<p>David Cockburn <i>Corporate Director of Strategic and Corporate Services</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p>
<b>3.2 Social Care, Health and Wellbeing</b>						
RB11 2017	Independent Living Fund	20	2	4	To provide assurance on the handover of the Independent Living Fund to KCC control to ascertain how far risks in relation to financial and reputational impact are managed.	<p>Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i></p> <p>Penny Southern <i>Director of LDMH</i></p>
RB12 2017	Social Care Placements – Central Purchasing Team	30	1	2	To provide assurance on the processes for social care placements into short-term and residential care through the new Central Purchasing Team. In addition the review will consider plans to extend the remit of the team to homecare.	<p>Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i></p> <p>Penny Southern/Anne Tidmarsh <i>Directors for Adult Social Care</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB13 2017	VCS - Engagement/Signposting	15	2	3	To provide assurance that engagement with and signposting to third sector organisations is appropriate and effective both in terms of managing demand on KCC services, and therefore achieving efficiencies, and ensuring safeguarding risks are adequately considered.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Penny Southern/Anne Tidmarsh <i>Directors for Adult Social Care</i>
RB14 2017	Dementia Care	25	2	4	Themed review focused on proactive work to provide assurance on KCC's readiness to meet the 2020 challenge including, for example, Dementia Friendly societies and Dementia Friends.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Anne Tidmarsh <i>Director of OPPD</i>
RB15 2017	ICES Contract	15	1	2	To provide assurance that there are adequate and effective contract monitoring processes in place to ensure that performance is in line with required standards and that objectives of the re-let project have been met.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Mark Lobban <i>Director of Strategic Commissioning</i>
RB16 2017	Disabled Services Post Transfer	25	2	4	Following the 2015/16 consultancy work to support the transfer of disabled children's services to adult social care and redesign of the transition pathway this audit will provide assurance post-implementation that objectives have been achieved and key risks have been identified and are managed appropriately.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Penny Southern <i>Director of LDMH</i>
RB17 2017	Carers' Assessments	15	2	1	To provide assurance that there are adequate and effective contract monitoring processes in place to ensure that performance is in line with required standards and that objectives of the commissioning process have been met.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Penny Southern/Anne Tidmarsh <i>Directors for Adult Social Care</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB18 2017	Better Care Fund - Health and Social Care Integration	20	1	3	To provide assurance that appropriate progress is being made to deliver outcomes in the BCF Plan by KCC and CCGs through review of performance and financial management, including ascertaining the impact of any changes implemented by the Department of Health for 16/17.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Anne Tidmarsh <i>Director of OPPD</i>
RB19 2017	Foster Care F/Up	5	1	1	Following the 2014/15 audit of Foster Care and the subsequent follow-up in 2015/16 this audit will provide assurance on implementation of the residual actions required to close off implementation of all agreed actions.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Philip Segurola <i>Director of Specialist Children's Services</i>
RB20 2017	Unaccompanied Asylum Seeking Children	25	1	1	To provide assurance that key risks in relation to an increase in UASC presenting in Kent through review of the placement process, including adequacy and sustainability of provision and financial management.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Sarah Hammond <i>Assistant Area Director, West Kent</i>
RB21 2017	Adoption	25	1	4	Following the 2015/16 work undertaken to provide assurance on the transfer of adoption management back to KCC this audit will review business as usual post-implementation to provide assurance that processes are adequately and effectively managed and to assess the impact of the change in management approach.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Naintara Khosla <i>Social Care, Health and Wellbeing</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB22 2017	No Recourse to public funds	10	2	2	A fraud risk in relation to erroneous claims for financial support by alleged asylum seeking families has been identified nationally and in particular by London Boroughs. This anti-fraud work will assess the potential impact on KCC and provide assurance on the adequacy of controls to mitigate risks identified.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Mark Thorn <i>Assistant Area Director - North Kent</i>
RB23 2017	0-25 Post-implementation Reviews	25	2	2	Time to provide assurance and when required on key projects and programmes in the 0-25 Transformation Portfolio	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Philip Segurola <i>Director of Specialist Children's Services</i>
RB24 2017	Step-down to Early Help	0 See EY Plan	1	Merged See EY Plan	See RB28 - the focus of this audit will be processes to manage demand for Specialist Children Services (SCS) through early intervention, however the feed-through from both Early Help (EH) to SCS and from SCS to EH will be considered.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Florence Kroll <i>Director of Early Help and Preventative Services</i>
RB25 2017	Public Health Governance F/Up inc Clinical Governance Framework	25	1	3	Following the 2015/16 audit of Public Health Governance this audit will seek to provide assurance on the implementation of actions to address issues raised and, in particular, review implementation and embeddedness of the Clinical Governance Framework.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Andrew Scott-Clark <i>Director of Public Health</i>
RB26 2017	Supervisions F/Up	15	1	3	A follow-up to the 2015/16 audit of Supervisions to provide assurance that agreed actions have been implemented.	Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i>  Penny Southern/Anne Tidmarsh <i>Directors for Adult Social Care</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
<b>3.3 Education and Young People Services</b>						
RB27 2017	Pupil Referral Units	20	2	3	To provide assurance that Pupil Referral Units are adequately and efficiently managed through reviewing the role of management boards and effective discharge of that role.	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Florence Kroll <i>Director of Early Help and Preventative Services</i>
RB28 2017	Early Help – Managing step-up to Specialist Children’s Services	35	1	1	To provide assurance on processes to manage demand for Specialist Children Services through early intervention, including the work of Early Help Units. This audit will be aligned with review of step-down from SCS and will consider risks in relation to delayed step-up	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Florence Kroll <i>Director of Early Help and Preventative Services</i>
RB29 2017	Attendance and Inclusion	25	2	4	To provide assurance that the sufficient and appropriately targeted work is undertaken to manage attendance and inclusion in schools to mitigate risks in relation to statutory duties and any potential detrimental impact on young people’s quality of education and associated issues. Due to the current restructure this audit is likely to be undertaken late 2016/17 or early 2017/18 hence the Priority 2.	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Florence Kroll <i>Director of Early Help and Preventative Services</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB30 2017	Safeguarding – Education and Young People Directorate	25	1	2	To provide assurance through review of the Safeguarding Team that an appropriate framework exists to respond to safeguarding alerts and to quality assure all work in relation to Children and therefore manage risks to their health, safety and wellbeing. In addition the review will provide assurance on compliance with statutory requirements including those in relation to missing children and risks in relation to Child Sex Exploitation and Radicalism.	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Gillian Cawley <i>Director of Education Quality and Standards</i> Or Florence Kroll <i>Director of Early Help and Preventative Services</i>
RB31 2017	NEET Strategy	20	1	2	To provide assurance on the implementation of the new NEET Strategy and Action Plan taken to Cabinet Committee in December 2015 and review achievement of planned outcomes to ensure full participation and a reduction in young people that are not in education, employment or training.	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Gillian Cawley <i>Director of Education Quality and Standards</i>
RB32 2017	Community Learning and Skills	20	2	4	To provide assurance that the key risks in relation to the new service delivery model are adequately managed. In particular the review will consider the recommendations made in relation to financial controls in previous audits and assurance on governance arrangements and transition to the new model.	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Gillian Cawley <i>Director of Education Quality and Standards</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB33 2017	Schools Improvement Team	20	1	1	To provide assurance that the Schools Improvement Team operates appropriately to allow achievement of strategic outcomes. This will include review of the consistency of support and information provided, the adequacy and appropriateness of commissioning processes and monitoring and review against planned outcomes.	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Gillian Cawley <i>Director of Education Quality and Standards</i>
RB34 2017	Elective Home Education	15	1	3	To provide assurance on the implementation of the Elective Home Education Policy, agreed by Cabinet in January 2016, and monitoring and review of children receiving EHE on achievement of planned outcomes. This audit will also follow-up the issues identified as part of the 2014/15 audit.	Patrick Leeson <i>Corporate Director of Education and Young People Service</i>  Keith Abbott <i>Director of Education Planning and Access</i>
RB35 2017	Education Commissioning – Capital Plan	25	1	3	To provide assurance that management of the Capital Plan, and in particular actions to address any funding gap, is adequate and effective to mitigate any risk of failing to meet statutory duties in relation to provision due to insufficient resources.	Patrick Leeson <i>Corporate Director of Education and Young People Service</i>  Keith Abbott <i>Director of Education Planning and Access</i>
RB36 2017	Schools Financial Services - system of audit	20	1	4	Annual review to ensure the work undertaken by the School Financial Compliance Team is adequate and effective to support the Section 151 officer's certification for the Schools Financial Value Standard.	Patrick Leeson/Andy Wood <i>Corporate Director of Education and Young People Services and Corporate Director of Finance &amp; Procurement</i>  Keith Abbott <i>Director of Education Planning and Access</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB37 2017	Schools – Themed Review	35	1	3	<p>A themed audit across a number of schools to provide assurance that key areas of finance and governance are appropriately controlled. For 2016/17 this will address:</p> <ul style="list-style-type: none"> <li>- Financial governance and planning including a focus on management of staffing levels to meet variable demand</li> </ul>	<p>Patrick Leeson/Andy Wood <i>Corporate Director of Education and Young People Services and Corporate Director of Finance &amp; Procurement</i></p> <p>Keith Abbott <i>Director of Education Planning and Access</i></p>
RB38 2017	EduKent	15	2	4	<p>Following an audit of EduKent pre-transformation this review will provide assurance on whether the model put in place addresses recommendations previously made, including that governance structures are appropriate and key risks are managed.</p>	<p>Patrick Leeson <i>Corporate Director of Education and Young People Services</i></p> <p>Keith Abbott <i>Director of Education Planning and Access</i></p>
RB39 2017	Education Trust – Watching Brief	20	2	Ongoing	<p>Time allocated to provide advice and challenge as and when required, and based on key milestones, in relation to development of a Trust model to deliver Education Services to Schools.</p>	<p>Patrick Leeson <i>Corporate Director of Education and Young People Services</i></p> <p>Keith Abbott <i>Director of Education Planning and Access</i></p>
RB40 2017	New EY Data Systems – Watching Brief	20	2	Ongoing	<p>Time allocated to provide advice and challenge as and when required, and based on key milestones, in relation to planning and implementation of new EY systems.</p>	<p>Patrick Leeson <i>Corporate Director of Education and Young People Services</i></p> <p>TBC</p>



Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB41 2017	Troubled Families	30	1	ongoing	Statutory requirement for Internal Audit to review a representative sample of families and achievement of outcomes prior to submission to DCLG for payment. The time budget allows for the provision of advice in relation to evidence required to support outcomes	Patrick Leeson <i>Corporate Director of Education and Young People Services</i>  Florence Kroll <i>Director of Early Help and Preventative Services</i>
<b>3.4 Growth, Environment and Transport</b>						
RB42 2017	Highways repairs process and outcomes	15	2	2	A review of the contract management process and controls for the highways contract to ensure that supplier performance is robustly monitored to demonstrate achievement of outcomes and that payments are in line with contract terms.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>
RB43 2017	LED Street Lighting	20	1	2	A review of the contract management process and controls for the new LED Street Lighting contract to ensure that supplier performance is robustly monitored and payments are in line with contract terms.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>
RB44 2017	Highway Safety/Crash Remedial Measures	25	1	1	To provide assurance that appropriate proactive and reactive action is taken to minimise the risk of injury or death on Kent roads.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>
RB45 2017	Speed Awareness Courses	15	2	1	To provide assurance that KCC as a provider delivers in line with contract terms and conditions and that any assumptions in relation to charging are robust ensuring that costs are recovered as a minimum to manage the risk of financial loss to KCC	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB46 2017	Public Rights of Way	25	1	1	To provide assurance that key risks in relation to reduced capital funding have been identified and are being adequately managed. The scope will include review of the effectiveness of resource allocation and financial management processes.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Katie Stewart <i>Director Environment, Planning and Enforcement</i>  Mike Overbeke <i>Group Head - Public Protection</i>
RB47 2017	Contract for bulky waste	15	2	3	A review of the contract management process and controls for the bulky waste contract to ensure that supplier performance is robustly monitored and payments are in line with contract terms.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>
RB48 2017	Regional Growth Fund	20	1	4	Assurance on the governance and controls over loans, grants and investments related to Regional Growth Funding, arrangements for monitoring performance against agreed targets and receipt of loan repayments.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  David Smith <i>Director of Economic Development</i>
RB49 2017	Concessionary Fares	15	2	2	To provide assurance on assessment, eligibility and application processes for concessionary fares for disabled and older persons to ensure statutory requirements are met and the risk of erroneous claims is mitigated.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>
RB50 2017	Commercial Services – Household Waste and Recycling Centre Contract	20	2	1	A review of the contract management process and controls for the Household Waste & Recycling Centres contract with Commercial Services. To ensure that supplier performance is robustly monitored and payments are in line with contract terms.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Roger Wilkin <i>Director of Highways, Transport and Waste</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB51 2017	Discovery Park Technology	10	1	4	A review of the activity of Discover Park Technology to provide assurance that investment decisions are robust and in line with agreed policy and strategy.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  David Smith <i>Director of Economic Development</i>
RB52 2017	BDUK Phase 2	15	1	Ongoing	To provide ongoing assurance on achievement of key stages in BDUK programme.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  David Smith <i>Director of Economic Development</i>
RB53 2017	Coroners Service	15	2	4	To provide assurance that controls in place over the Coroners Service are appropriate to manage service delivery and costs.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Katie Stewart <i>Director Environment, Planning and Enforcement</i>  Mike Overbeke <i>Group Head - Public Protection</i>
RB54 2017	Integrated Community Safety Function	15	2	4	To provide assurance post implementation of the integrated function that objectives and planned efficiencies/effectiveness have been achieved through coordinating community safety across the county.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Katie Stewart <i>Director Environment, Planning and Enforcement</i>  Mike Overbeke <i>Group Head - Public Protection</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
RB55 2017	Kent Resilience Team Phase 3 and Follow Up	15	1	3	This review will incorporate a follow-up of the audit of Phases one and two of the Kent Resilience Team project and will look to ascertain whether lessons learnt from Phases one and two have been applied to Phase 3 and whether any residual issues exist prior to the development of a Business Case proposing the future model at the end of the project.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Katie Stewart <i>Director Environment, Planning and Enforcement</i></p> <p>Mike Overbeke <i>Group Head - Public Protection</i></p> <p>Paul Flaherty/Chris Else <i>Kent Fire</i></p>
	<b>Total Days</b>	<b>1080</b>				

# 4. ICT Audit

To provide assurance that risks in relation to ICT are being managed appropriately

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
ICT01 2017	Software Lifecycle Management	15	1	Q1	To provide assurance that the Council maintains current versions of software within vendor support and licence requirements. Audit c/f from 2015/16 Audit Plan.	<p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy and Commissioning</i></p>
ICT02 2017	SWIFT – Adult SC ISO27001 certification.	15	2	Q1	To provide assurance that processing and security controls within the application are robust. To include Gap Analysis between current Application and requirements for Adult SC ISO27001 certification.	<p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Andrew Ireland <i>Corporate Director of Social Care, Health and Wellbeing</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p>
ICT03 2017	Spydus – Application Review	15	1	Q2	To provide assurance that processing and security controls within the application are robust.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Andrew Stephens <i>Head of Libraries, Registrations and Archives</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
ICT04 2017	Disaster Recovery Planning: Follow-up review	15	1	Q3	To assess the progress towards an effective DR Framework following 2014/15 review which reported 'limited' assurance. This will include follow-up of actions raised in previous review.	David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i>  Rebecca Spore <i>Director Infrastructure</i>  Michael Lloyd <i>Head of Technology Strategy and Commissioning</i>
ICT05 2017	ICT Strategy and governance	25	1	Q2/3	Evaluation of the arrangements the Council has in place to ensure that the ICT governance and ICT strategy remain aligned. To include ICT Organisation & Responsibilities.	David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i>  Rebecca Spore <i>Director Infrastructure</i>  Michael Lloyd <i>Head of Technology Strategy and Commissioning</i>
ICT06 2017	Cyber Security and Social Engineering	15	1	Q2	Cyber Security with particular emphasis on uses of Cloud services; also intruder detection capability. Social Engineering to cover risks associated with use of social media e.g. Facebook / Twitter for business and personal uses pertaining to Council data	David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i>  Rebecca Spore <i>Director Infrastructure</i>  Michael Lloyd <i>Head of Technology Strategy and Commissioning</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Rationale	Corporate Director & Lead Officer
ICT07 2017	ICT Project Management	20	1	Q3	Processes for managing delivery of new implementations, particularly ICT elements.	<p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy and Commissioning</i></p>
ICT08 2017	IT Asset Management	15	2	Q4	Audit of processes to ensure KCC's key ICT assets are accounted for.	<p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p>
ICT09 2017	Network Management	15	2	Q3	<p>Annual audit to ensure that:</p> <ul style="list-style-type: none"> <li>• Network components are effectively managed and monitored and are secured against inappropriate access</li> <li>• Changes to network components are planned, documented, authorised and tested</li> </ul>	<p>David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i></p> <p>Rebecca Spore <i>Director Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy and Commissioning</i></p>
ICT10 2017	PCI DSS	15	1	Q3/4	Follow up audit to establish status of Council work towards compliance with PCI DSS requirements.	<p>Andy Wood <i>Corporate Director Finance and Procurement</i></p> <p>Nick Vickers <i>Head of Finance</i></p>
N/a	ICT Relationship Management & Liaison	35		Over the Year	Meetings with ICT and other Management as appropriate.	
	<b>Total Days</b>	<b>200</b>				

# 5. Work to Prevent and Pursue Fraud and Corruption

To provide assurance that fraud risks are being adequately and effectively managed

Ref.	Audit	Days	Priority	Indicative Qtr	Rationale	Audit Details
						Corporate Director & Lead officer
<b>Anti-fraud work – to raise awareness</b>						
CF01 2017	Fraud awareness	30	1	Ongoing	A programme of fraud awareness training based on an authority wide training needs analysis targeting groups in high risk areas first e.g., schools, procurement and social care. To raise the level of fraud awareness and create a zero tolerance culture towards fraud and corruption.	<b>Authority Wide</b>  David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>
<b>Fraud prevention work – to remove weaknesses that could be exploited</b>						
CF02 2017	Kent Intelligence Network	170	1		Using data from across Kent partners to identify and assess areas of potential fraud risk in order to make recommendations to remove weaknesses that could be exploited in order to commit fraud.	<b>Authority Wide</b>  David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>
CF03 2017	National Fraud Initiative (NFI)	30	1		Investigation of NFI alerts and matches to assess areas of potential fraud risk and where appropriate make recommendations to remove weaknesses that could be exploited in order to commit fraud.	<b>Authority Wide</b>  David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>
<b>Investigation, sanction and redress</b>						
CF04 2017	Authority wide Investigations	270	1	Ongoing	Investigate suspected fraud in a timely, professional, and cost effective manner ensuring that all appropriate sanctions are applied and any losses are recovered. This work will include a review of transactions shown as matches by National Fraud Initiative and investigate and report as appropriate.	<b>Authority Wide</b>  David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>



Ref.	Audit	Days	Priority	Indicative Qtr	Rationale	Audit Details
						Corporate Director & Lead officer
<b>Detection work – to detect fraud in high risk areas or systems that may be vulnerable</b>						
	Counter Fraud audits have been included in the audit plan as follows:  Declarations of Interest Bribery and Corruption Grants No recourse to public funds Insurance Debt Fraud	n/a			To detect fraud in high risk areas or systems that may be vulnerable and to make recommendations to secure arrangements.	<b>Authority Wide</b>  David Cockburn <i>Corporate Director of Strategic and Corporate Services</i>
	<b>Total Days</b>	<b>500</b>				

# 6. Summary

Audit	2016/2017
	Days
Core Assurance	670
Core Financial Assurance	210
Risk/Priority Based	1080
IT audit plan	200
Proactive and Reactive Counter fraud work	500
Follow up of recommendations with medium/high priority rating	60
Liaison, advice and information and support for system/service development	50
Support on procurement of External Audit provider	20
Establishments to include a themed reviews of Children's Centres and Libraries	140
Commercial Services	200
Gen2 – Property LATCO	50
Legal Services LATCO	25
Parishes	50
Other external including Kent Foundation, Help Fund, Stag Theatre and Kent Fisheries	40
KMFRA	95
Tonbridge and Malling District Council – Management of audit and fraud	120
Grant claims other Certifications	25
<b>Total Days</b>	<b>3535</b>

# Appendix B – Key Performance Measures for Internal Audit & Counter Fraud 2016/17

<b>INPUTS</b>	<b>Fraud</b>	<b>Audit</b>
Total number of employees undertaking investigations	Annual declaration	Annual declaration
Total number of professionally accredited	Annual declaration	Annual declaration
Amount spent on investigation and prosecution of fraud	Annual declaration of actual and budget	Annual declaration of actual and budget
<b>OUTPUTS</b>		
90% of priority 1 audits completed 50% of priority 2 audits completed		Cumulative Monthly FPET and progress reporting to G&AC
90% of audit draft reports to be issued within date on the Engagement Plan		Monthly – IA management team
Time from start of fieldwork (SoF) to draft report to be no more than 40 days		Monthly – IA management team, FPET and cumulative G&AC
Draft report to final within 30 days		Monthly- IA management team
Advice to working parties , groups etc	Cumulative declaration through G&AC reporting	Cumulative declaration through G&AC reporting
No of fraud cases investigated	Cumulative declaration through G&AC reporting	
No of irregularity cases investigated	Cumulative declaration through G&AC reporting	
<b>OUTCOMES</b>		
% of high priority/risk issues a) Agreed b) Implemented by client		Monthly – FPET and Cumulative declaration through G&AC reporting
% of all other issues a) Agreed b) Implemented by client		Monthly FPET and Cumulative declaration through G&AC reporting
Client satisfaction to be 90% or more	Monthly - FPET and cumulative declaration through G&AC reporting	Monthly - FPET and cumulative declaration through G&AC reporting
Value for money / efficiency savings identified	Cumulative declaration through G&AC reporting	Cumulative declaration through G&AC reporting
Total No of occasions on which (a) fraud and (b) irregularity was identified	Cumulative declaration through G&AC reporting	
Total monetary value of (a) and (b) detected	Cumulative declaration through G&AC reporting	
Total monetary value of (a) and (b) recovered	Cumulative declaration through G&AC reporting	

# Appendix C - Internal Audit Assurance Levels

<u>Assurance level</u>	
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.

## Prospects for Improvement

**Very Good**

There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.

**Good**

There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.

**Adequate**

Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.

**Uncertain**

Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

## APPENDIX 2

### KENT COUNTY COUNCIL

#### Internal Audit Charter

##### INTRODUCTION

This charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council. The Charter will be reviewed at least annually to ensure it is up-to-date and reflects the Public Sector Internal Audit Standards (PSIAS).

##### PURPOSE

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. **Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.**

Kent County Council's Internal Audit mission statement is, 'To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively'.

##### AUTHORITY

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2011. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Corporate Director of Finance and Procurement.

##### STATUS OF INTERNAL AUDIT WITHIN THE ORGANISATION

The Head of Internal Audit reports directly to the Corporate Director of Finance and Procurement and quarterly to the Governance and Audit Committee. The Head of Internal Audit also regularly meets with the Chair of the Governance and Audit Committee. The Head of Internal Audit will also report to senior management and Members when necessary, including statutory officers, Head of Paid Service, Monitoring Officer and the Leader of the Council.

The Governance and Audit Committee are responsible for ensuring Internal Audit are 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. The Governance and Audit Committee approve the Charter every year within the Annual Audit report.

As a senior manager (KR16 or above) the appointment and termination of the Head of Internal Audit is covered by the Personnel Management Rules (Appendix 2 Part 6 of the Council's constitution).

### **RESPONSIBILITY**

It is the responsibility of management to establish and maintain systems of corporate governance, risk management and internal control to provide assurance that the Council's objectives are being achieved and to minimise the risk of fraud or irregularity.

Internal Audit will contribute to the corporate governance process by providing an assurance on the effectiveness of these systems of risk management and internal control, making practical recommendations for enhancements where considered necessary. Management has responsibility to implement audit recommendations, address issues raised, or accept the risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne, or management fails to implement agreed actions.

### **PROFESSIONAL STANDARDS**

The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework which include:

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the Definition of Internal Auditing;

- the Core Principles;
- the Code of Ethics; and
- the International Standards for the Professional Practice of Internal Auditing.

Additional requirements and interpretations for the UK public sector have been incorporated.

The Council's Internal Audit activity will also have regard to the Committee on Standards in Public Life, and to the Seven Principles of Public Life.

### **INDEPENDENCE AND OBJECTIVITY**

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations.

The Head of Internal Audit will have free and unrestricted access and freedom to report in his/her own name to the Corporate Director of Finance and Procurement, Head of Paid Service and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual audit plans. The audit plan will be flexible enough to accommodate the needs of senior management and Members depending on the relative significance of emerging risks. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant findings of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc. Internal Auditors will also refrain from assessing specific operations for which they were previously responsible, within the previous year.

#### **SCOPE & NATURE OF INTERNAL AUDIT**

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors) and the Governance and Audit Committee (referred to as 'Board' in the PSIAS) as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. It will include:

- Reviewing the soundness, adequacy and application of financial and other management controls;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
  - Fraud and other offences
  - Waste, extravagance and inefficient administration, poor value for money and other causes;
- Reviewing the suitability and reliability of financial and other management data developed within the organisation;
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems;
- Promote and raise awareness of fraud and corruption;
- Investigating allegations of fraud and corruption;



- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

Internal Audit's activities extend to all remote establishments, subsidiary companies and trading activities.

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

The Head of Internal Audit will provide an annual audit opinion as to the adequacy of the Council's internal controls and risk management processes. This will be used to support the Annual Governance Statement.

### **FRAUD AND IRREGULARITY**

Internal Audit does not have to investigate all cases of potential frauds and irregularities; however they must all be reported to the Head of Internal Audit or the Counter Fraud Manager who will determine if an investigation needs to take place. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

### **RIGHT OF ACCESS**

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members records (documentary and electronic), assets and premises, deemed necessary in the course of its duties. Internal Audit will ensure that all information received as part of their work is treated confidentially at all times.

### **INTERNAL AUDIT RESOURCES**

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Internal Audit to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan. The Head of Internal Audit will use a combination of in-house, partner or third parties to deliver aspects of the plan to the best expertise and value for money. When engaging a partner the Head of Internal Audit will ensure the partner has the appropriate knowledge and experience to deliver the engagement, applies the quality assurance standards of the section and has access to all information and explanation required to undertake the engagement (coordinated through Internal Audit managers).

## **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit. This is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Internal Audit will carry out an annual review of the Internal Audit function, in accordance with the Quality Assurance and Improvement Programme outlined below, and will report the results to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Internal Audit will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee. The Head of Internal Audit will review the Charter annually and attach a revised document to the annual internal audit report.

## **PROVISION OF ASSURANCE TO THIRD PARTIES**

The Council's Internal Audit section is sometimes requested to undertake Internal Audit and assurance activity for third parties, such as Kent Fire and parishes. These include internal audit services, grant certification and financial account sign-off.

The same principles detailed in this Charter will be applied to these engagements.

When performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement. Internal auditors will address controls consistent with the engagement's objectives and be alert to significant control issues.

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

The Head of Internal Audit will maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Head of Internal Audit will communicate to the Corporate Director of Finance and Procurement and the Governance and Audit Committee on the internal audit activity's QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.

Signed by:

Head of Internal Audit:

Chairman of the Governance and Audit Committee

#### VERSION CONTROL

Document Owner: Robert Patterson, Head of Internal Audit.

Version	Reviewed/Due for Review	Reviewer	Approver	Date approved
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Original

1	23 February 15	Head of Internal Audit	Governance and Audit Committee	
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3	April 2016	Head of Internal Audit		
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By: Robert Patterson – Head of Internal Audit  
To: Governance and Audit Committee – 27<sup>th</sup> April 2016  
Subject: **Internal Audit and Counter Fraud Progress Report**  
Classification: Unrestricted

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

## **FOR ASSURANCE**

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### **Introduction**

1. This report summarises:
  - the key findings and themes from completed Internal Audit reviews
  - the key findings from completed counter fraud investigations
  - dedicated follow up work
  - works in progress
  - overall progress against the 2015/16 Internal Audit Plan;
  - achievement against the Internal Audit and Counter Fraud Key Performance Indicators

### **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 60 audit reviews have been completed, including 48 substantive reviews. A further 5 substantive audits are at draft reporting stage or awaiting final management feedback and significant fieldwork is in progress for a further 6 audits. In relation to counter fraud work there have been 120 irregularities reported and investigated since the start of 2015/16 of which 77 have been concluded. Overall the unit has reviewed systems or activities with a combined turnover of an estimated £2.52 billion 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. Progress against the Audit Plan for 2015/16 is satisfactory with over 80% of the plan underway or completed as at the end of March and with 90% of priority 1 and 55% of lower priority audits complete or substantially complete.

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

### **Implications for Governance**

6. Summaries of findings from completed work between January and March 2016 have been included within Appendix 1. 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.
7. Cumulatively, the outcomes to date have been satisfactory, with the following over-arching strengths and areas for development underlying these conclusions:

#### **Strengths**

- 43% of systems or functions have been judged with a substantive assurance or better
- A continuing pattern of general robustness of key financial systems
- Positive outcomes from the operation of selected financial systems in schools and the financial support and review services utilised to support them
- Substantial assurance over underlying Directorate risk management systems
- Positive assurance over non-financial safeguarding controls in children's services
- No incidences of material fraud, irregularities or corruption have been discovered or reported to date

#### **Areas for Development**

- The 17% of systems / functions that have received a 'limited' assurance level
- Evidence of shortfalls in the way the Council controls and monitors the contracts that it awards
- Weaknesses in the methods of awarding and controlling grants
- The need to ensure recruitment and retention incentives are value for money and are achieving the desired outcomes
- Following transfer into the Council, the need to further improve and enhance the underpinning systems in our Leaving Care services to young people  
The continuing need for consistency in devolved financial and non-financial controls in establishments. (Cumulatively, of the 12 establishments audited this year, only one has received a 'substantial' assurance rating)

8. During this period we also completed our governance review of the Council's Public Health services. Overall we found there was a good vision for the future direction for the service coupled to effective commissioning. We also concluded that the service would be better prepared to meet the challenges it faces if there was more cohesive working across senior and middle management and that accountabilities for critical quality management systems were clarified.

9. In relation to counter fraud, the potential value from the 120 reported irregularities to date is £1.5m. This includes a notional value from prevented frauds and not an actual cash loss and has been skewed by a number of potential high value grant frauds.
10. In relation to enhanced and integrated counter fraud measures, work continues on the set up of the Kent Intelligence Network (KIN) data matching project. This project is critical to improving the yield from the local taxation base across the County, particularly in deterring fraud and error in relation to Council Tax single person discount and business rates. As detailed in Appendix 1 there have been practical challenges in implementation but we are hopeful that we will be able to report that data matching has commenced by the July meeting.
11. Overall, we have received satisfactory responses and proposed actions from management over the issues we have raised from individual audits and counter fraud assignments.
12. As such, 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.

## **Recommendations**

13. Members are asked to note:
  - Progress and outcomes against the 2015/16 Audit Plan and relevant performance indicators
  - Progress and outcomes in relation to Counter Fraud activity
  - The overall 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

## **Appendices**

### ***Appendix 1 Internal Audit Progress Report end March 2016***

**Robert Patterson**  
**Head of Internal Audit**

**(03000 416554)**



# Kent County Council

## Internal Audit and Counter Fraud Progress Report

April 2016



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## 1 Introduction and Purpose

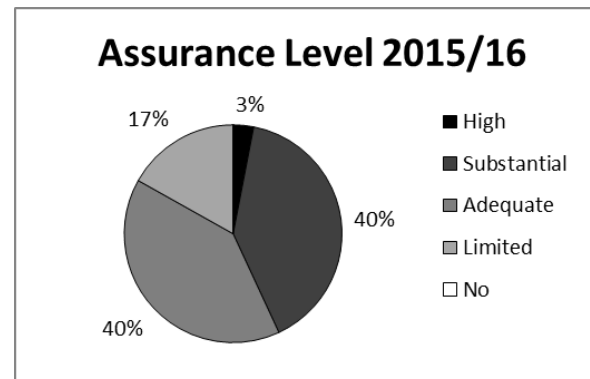
- 1.1. This report details cumulative internal audit and counter fraud outcomes for 2015/16 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since January 2016. It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.
- 1.2. To date we have completed 60 internal audits (including 12 establishment visits) and 120 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.
- 1.3. Other key performance data for the unit is detailed in Section 8.
- 1.4. 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.

## 2 Overview

### Internal Audit

- 1.5. Table 1 maps the assurance levels from the substantive internal audits undertaken to date. This results in an overall distribution of:

Assurance Level	No	%
High	2	3%
Substantial	19	40%
Adequate	19	40%
Limited	8	17%
No	0	0%



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

1.6. Particular strengths include

- 43% of systems or functions have been judged with a substantial assurance or better
- A continuing pattern of general robustness of key financial systems
- Positive outcomes from the operation of selected financial systems in schools and the financial support and review services utilised to support them
- Substantial assurance over underlying Directorate risk management systems
- Positive assurance over non-financial safeguarding controls in children's services
- No incidences of material fraud, irregularities or corruption have been discovered or reported

1.7. Areas for further Improvement relate to:

- The 17% of systems / functions that have received a 'limited' assurance level
- Further evidence of shortfalls in the way the Council controls and monitors the contracts that it awards
- Weaknesses in the methods of awarding and controlling grants
- The need to ensure recruitment and retention incentives are value for money and are achieving the desired outcomes
- The need to further improve and enhance underpinning systems in our Leaving Care services to young people
- The continuing need for consistent and robust devolved financial and non-financial controls in establishments.

1.8. The counter fraud function has provided positive outcomes as detailed on later pages. In particular 120 irregularities have been recorded with a potential value of £1.5m.

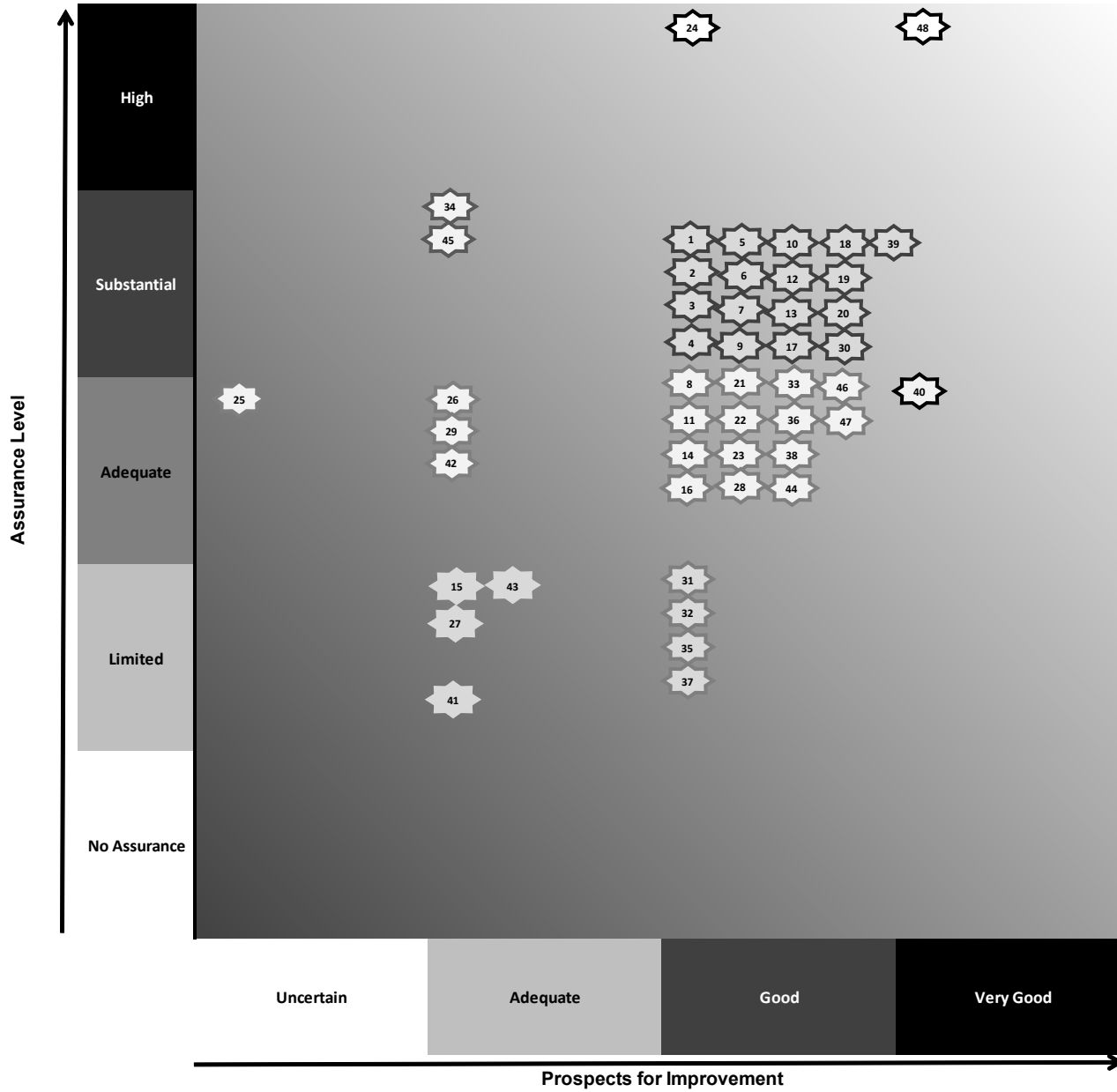
1.9. The breadth of coverage and outcomes from our work to date have provided sufficient evidence to support an interim opinion that Kent County Council continues to have:

- 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

1.10. Management have developed appropriate action plans in response to all the high priority issues raised from our recent audit and counter fraud work.

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

Table 1



**Audit Opinion September G&A Committee**

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 SCS	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

**Audit Opinion January G&A Committee**

No	Audit	Judgement	Prospects for Improvement
15	Consultancy & Partnership Contract Arrangements	Limited	Adequate
16	Programme Management & Corporate Assurance	Adequate	Good
17	New Ways of Working Follow-up	Substantial	Good
18	ICT Data Centres	Substantial	Good
19	ICT Change Control	Substantial	Good
20	Data Quality - HR Oracle	Substantial	Good
21	Looked After Children (LAC) Finances	Adequate	Good
22	Recruitment Controls & DBS Checks	Adequate	Good
23	Payment Processes	Adequate	Good
24	Treasury Management	High	Good
25	Better Care Fund	Adequate	Uncertain
26	OP Residential & Nursing Contract re-lets	Adequate	Adequate
27	Total Facilities Management - Contract Management	Limited	Good
28	Sexual Health	Adequate	Good

**Audit Opinion April G&A Committee**

No	Audit	Judgement	Prospects for Improvement
29	Public Health	Adequate	Adequate
30	Information Governance Toolkit	Substantial	Good
31	I.T Third Party Contracts	Limited	Good
32	Leaving Care	Limited	Good
33	Regional Growth Fund	Adequate	Good
34	Risk Management	Substantial	Adequate
35	Recruitment and Retention Incentives	Limited	Good
36	Settlements Agreements	Adequate	Good
37	Grants	Limited	Good
38	Financial Assessments Follow Up	Adequate	Good
39	Pension Contributions	Substantial	Good
40	Pension Scheme Administration	Adequate	Very Good
41	TFM Helpdesk	Limited	Adequate
42	Contract Extensions and Variations	Adequate	Adequate
43	Contract Management Themed Review	Limited	Adequate
44	SEN Assessments and Funding	Adequate	Good
45	Schools Financial Services	Substantial	Adequate
46	Payroll and Income in Schools	Adequate	Good
47	Section 17	Adequate	Good
48	Capital Finance	High	Very Good

**Total Turnover Audited (£)**

**£2,516,812,978**

### 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 January, 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	
<b>Consultancy and Partnership Contract Arrangements</b>	Limited	Adequate	High: 5 Medium:5	All accepted
<b>Programme Management and Corporate Assurance</b>	Adequate	Good	High: 0 Medium:6	All accepted
<b>New Ways of Working (follow up)</b>	Substantial	Good	High: 1 Medium:0	All accepted
<b>Home Care contract</b>	Adequate	Good	High: 1 Medium: 0	All accepted

- 3.3. We have no new completed work to report for this quarter, although an associated audit on consultations is at final reporting stages. We are also observers on the programme management groups of the 0-25 and Adults Phase 2 transformation projects.

- 3.4. As a reminder, our programmed work on the newly outsourced Contact Point service has been deferred to 2016/17 on the request of management.

### **Data and Information Management**

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

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>Information Governance Toolkit</b>	Substantial	Good	High: 0 Medium: 0	N/A
<b>IT Third Party Contracts</b>	Limited	Good	High: 1 Medium: 1	All accepted
<b>ICT Data Centres</b>	Substantial	Good	High: 0 Medium: 3	All accepted
<b>ICT Change Control</b>	Substantial	Good	High: 0 Medium: 1	All accepted
<b>Data Quality (Oracle HR)</b>	Substantial	Good	High: 2 Medium: 2	All accepted
<b>IT Oracle</b>	Substantial	Good	High: 0 Medium: 3	Accepted
<b>Business Continuity Planning</b>	Substantial	Good	High: 1 Medium: 4	Accepted

- 3.6. The review of IT contracts mirrored the findings of our on-going contract management work (see below). Although individual contracts contain appropriate clauses relating to confidentiality and protection of data, the central contract register did not include most of the IT contracts reviewed, meetings with contractors are rarely, if ever, recorded and take up of contract management training to date has been poor.

### Safeguarding

- 3.7. Safeguarding of vulnerable children and adults is a critical risk for the Council. We have undertaken the following work relating to services to vulnerable young people and adults:

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>Leaving Care</b>	Limited	Good	High: 2 Medium: 4	All accepted
<b>Looked After Childrens (LAC) Finances</b>	Adequate	Good	High: 0 Medium: 1	All Accepted
<b>Safeguarding in Children's Services</b>	Substantial	Good	High: 1 Medium: 7	All Accepted
<b>Foster Care Follow Up</b>	Adequate	Good	N/A	Good progress being made
<b>Client Financial Affairs Follow Up</b>	Substantial	Good	High: 0 Medium: 2	Accepted

- 3.8. The Leaving Care service has been recently transferred from the voluntary sector and is experiencing a number of issues including recruitment problems at Area Manager level, deficiencies in local budget monitoring and certain financial controls relating to cash payments. We found a high proportion of 'Pathway Plans' for young people were out of date or incomplete and support plans for young people transferring to Adult social care did not always adhere to statutory



requirements. On a positive note, all cases reviewed had an allocated Personal Advisor and there is considerable evidence of management working to address shortcomings and re-design and simplify current processes.

- 3.9. Our Governance review of Public Health (see below) identified the need to strengthen quality assurance and monitoring including engagement and accountability. This issue clearly touches on elements of safeguarding risks.

### **Access to resources to aid economic growth and enabling infrastructure**

- 3.10. The audit relating to RGF monitoring and management arrangements was completed in this period with the following outcome:

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>Regional Growth Fund</b>	Adequate	Good	High: 0 Medium: 3	All accepted

- 3.11. This report built on our previous work on applications for funding and focused on monitoring, loan repayments and arrangements to identify potential liquidations. Bearing in mind the inherent risks and nature of the companies involved we concluded that controls were well defined and operating satisfactorily. Currently actual repayments are running at 85% of target and liquidations represent 3% of defrayed funds over all schemes. Areas for improvement related to the need for consistent monitoring processes across the schemes supported by up to date process notes. The audit trail for monitoring reports to the relevant Cabinet Committee also needs strengthening.

### **Governance and Internal Control - critical systems and services**

- 3.12. 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:

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>Public Health : Departmental Governance</b>	Adequate	Adequate	High: 2 Medium: 5	All accepted

<b>Risk Management</b>	Substantial	Adequate	High: 0 Medium: 2	All accepted
<b>Recruitment and retention incentives</b>	Limited	Good	High: 2 Medium: 1	All accepted
<b>Settlement Agreements</b>	Adequate	Good	High: 0 Medium: 2	All accepted
<b>Grants</b>	Limited	Good	High: 3 Medium: 2	All accepted
<b>Financial Assessments Follow Up</b>	Adequate	Good	High: 1 Medium: 3	All accepted
<b>Capital Finance</b>	High	Very Good	High: 0 Medium: 0	n/a
<b>Pension Contributions</b>	Substantial	Good	High: 0 Medium: 0	n/a
<b>Pension Scheme Admin</b>	Adequate	Very good	High: 1 Medium: 3	All accepted
<b>Recruitment Controls and DBS</b>	Adequate	Good	High: 2 Medium: 2	All accepted
<b>Payments Processes</b>	Adequate	Good	High: 0 Medium: 2	All accepted

<b>Treasury Management</b>	High	Good	High: 0 Medium: 0	N/A
<b>Pensions Payroll</b>	Substantial	Good	High: 1 Medium: 4	Accepted
<b>KCC Payroll Follow Up</b>	Substantial	Good	High: 0 Medium: 0	Accepted
<b>Debt Recovery</b>	Adequate	Good	High: 1 Medium: 3	Accepted
<b>Learning and Development</b>	Substantial	Good	High: 0 Medium: 1	Accepted

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- 3.13. In this cycle we are reporting on the first of our governance reviews within Directorates – in this case Public Health. Overall we found the Division displayed a clear and well-grounded vision for the future of Public Health across Kent and a number of successes and improvements have been achieved, particularly around commissioning. The deficiencies related to challenges in achieving cohesive team working which was a root cause to many of the improvement issues identified and if not resolved will impede the speed and effectiveness in achieving such improvements.
- 3.14. Our assurance work for risk management this year related to a review of the robustness of underlying Directorate risk registers that provide the foundations for the over-arching corporate risks. In relation to the Directorates examined we found the risk management and monitoring processes were robust with a good understanding displayed by staff. However there were isolated examples of incomplete registers and a number of situations where the sustainability of the risk registers was largely due to direct intervention from the corporate risk team.
- 3.15. We undertook two HR related audits, one relating to settlement (formerly 'compromise') agreements together with a review of the effectiveness of recruitment and retention incentive payments within Specialist Children's Services (SCS). In relation to settlement agreements we found that the £700k spent in the last three years had been subject to correct processes and value for money judgements (although these are not always quantified) and from our testing we found no evidence of such staff being subsequently re-employed.

- 3.16. Conversely the £ 2 million spent over the past 12 months on recruitment and retention initiatives did not outwardly demonstrate value for money. Both turnover levels and permanent staff occupancy rates have shown very little change since the introduction of the scheme. We found material inconsistencies in the application of a number of key controls and minimal action to undertake recoveries with breaches of 'Golden Hello' conditions. We understand the scheme is currently under review and management have been vigorous in rectifying the issues we have highlighted.
- 3.17. In relation to spending on grants we reviewed the £ 7.1 m spent to date in 2015/16. We found an inconsistent approach and generally poor controls applied to grants such that none of the schemes tested complied fully with expected controls making them susceptible to error and fraud (although it should be emphasised no incidences of fraud were found). A material proportion of grants we tested were in fact contracts used to commission services and had been incorrectly recorded. The Head of Paid Service has taken the issues seriously and in tandem with the Section 151 officer has commissioned a complete overhaul of current systems and controls.

### Better Care Funding

- 3.18. We have undertaken no further work on BCF in the period, but as a reminder our assurance from our earlier 2015/16 audit was :

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>Better Care Funding</b>	Adequate	Uncertain	High: 0 Medium: 3	All accepted

- 3.19. We have incorporated further follow up work into the draft 2016/17 plan.

### Procurement and Contract Management

- 3.20. The effective management of procurement and commissioning is critical to the Council. We have undertaken the following related audits:

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>TFM Helpdesk</b>	Limited	Adequate	High: 4 Medium:1	All accepted
<b>Contract Extensions and Variations</b>	Adequate	Adequate	High: 2 Medium:2	
<b>Contract Management Themed Review</b>	Limited	Adequate	High: 1 Medium:4	All accepted
<b>OP Residential Nursing Re- Let</b>	Adequate	Adequate	High: 3 Medium:5	All accepted
<b>TFM Contract Management</b>	Limited	Good	High: 2 Medium:8	All accepted
<b>Household waste and re-cycling contract management</b>	Substantial	Good	High: 0 Medium: 3	Accepted

- 3.21. The findings from these three audits (together with the third party ICT contract management) again highlight underlying weaknesses in the way contracts are managed in certain areas in the Council and that this continues to be a key risk.
- 3.22. The TFM helpdesk audit supported the findings from the overall TFM contract audit undertaken earlier in the year. Issues were identified that impaired contract performance such as miscategorised calls, unresolved open jobs and limited reporting including that to substantiate elements of billing. Since the audit was undertaken, contract management for two of the three TFM contract has changed and there is a new Head of Property Operations in post.
- 3.23. Combining the outcomes from both the contract themed review and the audit dedicated to contract variations has highlighted the need for further sustained improvements. In particular our testing of the corporate contract register found it to be effectively a 'voluntary' control with considerable non compliance in terms of contract recording. In sampling, one

in five contracts had been extended beyond the timescales specified in the contract and documentary evidence to substantiate consideration of value for money was not always available. Controls that might prevent these occurrences such as formal procedures and guidelines for managers covering contract extensions were not available and the take up of contract training is mixed, although further training is being rolled out in 2016/17.

3.24. These findings demonstrate the need for the corporate initiatives currently being taken to be fully supported – clearly we will be undertaking follow up next year to independently evidence planned improvements.

**4. Other Audit Work** A further 4 audits have been undertaken during this quarter:

	<b>Assurance level</b>	<b>Prospects for Improvement</b>	<b>Issues Raised</b>	
<b>SEN Assessment and Funding</b>	Adequate	Good	High: 0 Medium: 5	All accepted
<b>Schools Financial Services</b>	Substantial	Adequate	High: 1 Medium: 1	50% acceptance; management do not accept at present there should be a reduction in the RCT team to reflect the reduction in the number of schools.
<b>Schools themed review - Payroll and Income</b>	Adequate	Good	High: 0 Medium: 2	All accepted
<b>Section 17 – Children’s Payments (Follow up)</b>	Adequate	Good	Previously: High: 2 Medium :5	Both high priority issues implemented. Inconsistencies remain with the 5 medium priority issues.

<b>Sexual Health</b>	Adequate	Good	High: 0 Medium:2	All accepted
<b>Community, Learning and Skills</b>	Substantial	Good	High: 0 Medium:3	Accepted
<b>Transparency Code Compliance</b>	Substantial	Good	High: 0 Medium:3	Accepted
<b>School Capital Project Delivery</b>	Substantial	Good	High: 0 Medium:1	Accepted

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- 4.2. One of the more substantive audits completed in this quarter has been Special Education Needs (SEN) which costs the County Council £31m per annum. Overall we observed improvements in processes and controls governing both operational and budget issues with more enhanced management information. As a positive it is clear the needs of the child and families remain integral to assessments. Unfortunately the majority of files examined were missing elements of supporting evidence and information, there were material numbers of overdue reviews for independent placements and current delegated spending systems for independent school placements were in breach of Financial Regulations.
- 4.3. Our annual audit of the schools financial services returns and compliance team (RCT) concluded that there is effective monitoring practice and further improvements continue to be made. One value for money issue raised is that the number of schools has reduced by 20% over the last 4 years but with no commensurate reduction in the size or net cost of the RCT team, meaning that coverage has effectively increased with no evident corresponding increase in risk.
- 4.4. Our review of schools payroll and income systems involved visits to 19 sites and concluded that, overall, controls were effective but there was a general theme of a need to improve payroll authorisation at a number of schools
- 4.5. In 2014/15 we reviewed Section 17 payments systems – these are payments to children where there is effectively no recourse to other public funds and currently costs the County £550,000 per annum. In other parts of the country this has been an area prone to considerable fraud. This audit concluded controls were weak such that ‘no assurance’ could be given. Our follow up work has determined there have been some improvements in systems and control as both high priority issues raised have now been rectified including strong payment authorisation controls. However there are still

concerns with the 5 medium priority issues raised, in particular inconsistencies remain with authorisation forms and supporting documentation whilst there are still difficulties in tracing payments back to the main accounting system.

### Establishment Visits

4.6. During this period we concluded our audits of a further 4 establishments, with the following outcomes:

Site / Centre	Assurance level	Directorate
Bewl Water (activities centre) Follow up	Adequate	EY
Swattenden (outdoor education centre) Follow up	Limited	EY
Swale Youth Hub	Limited	EY
Kent Mountain Centre Follow up	Adequate	EY
Thanet Youth Hub	Adequate	EY
Lullingstone (Country) Park	Substantial	GET
Minnis Bay Day Centre	Limited	SC
Westbrook Centre	Adequate	SC
Shorne Woods Country Park	Adequate	GET
Kiln Court	Adequate	SC
Blackburn Lodge	Adequate	SC



Wayfarers	Adequate	SC
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- 4.7. These establishment audit visits, a number of which were carried out with minimal or no notice, are part of three themes this year around Country Parks, Homes for Older People and Youth Services. The most significant findings related to the following areas:
- Cash Controls - including adequacy of petty cash records and the regular banking of cash receipts
  - Assets – the adequacy of recording and security marking assets
  - Stock records – missing or incomplete records for food and cleaning stocks
  - Staff time recording – incomplete records to support staff overtime payments.
  - Staff training –lack of a staff skills and training matrix and poor completion of mandatory training such as Data Protection, Information Governance, Equality & Diversity, Infection Control and Safeguarding.

#### **Other Activity**

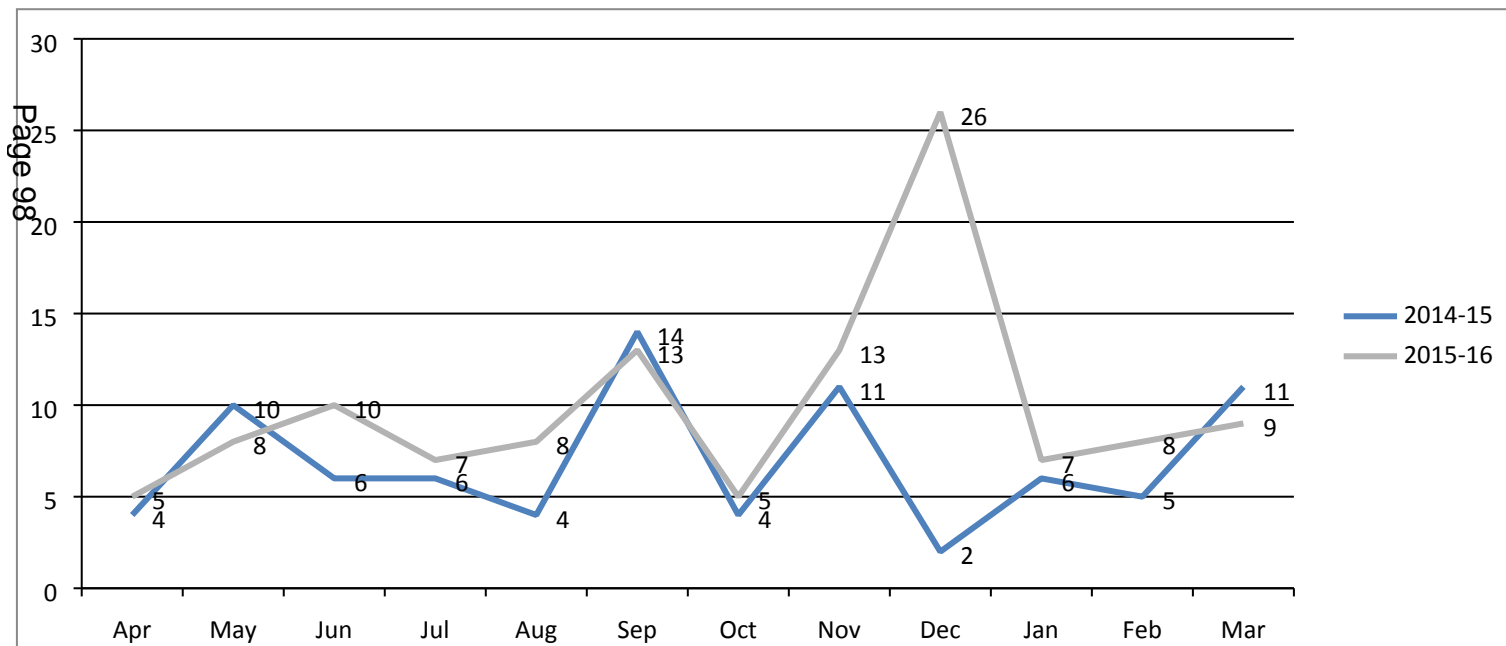
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- 4.8. Other audit activity in this period includes:
- Advice and input towards Broadband Development UK
  - Advice on governance controls towards the setting up of future LATCo's
  - Grant verification and certification work including Troubled Families
- 4.9. We also continue to diversify our work by offering a proportion of our services to other public sector related or associated bodies, including
- Internal audit of Kent Commercial Services
  - Appointed auditor to 13 Parish Councils
  - Internal audit of Kent and Medway Fire and Rescue Service and Kent and Essex Inshore Fisheries and Conservation Authority
  - A shared service arrangement for the management of the audit and fraud service at Tonbridge and Malling Borough Council

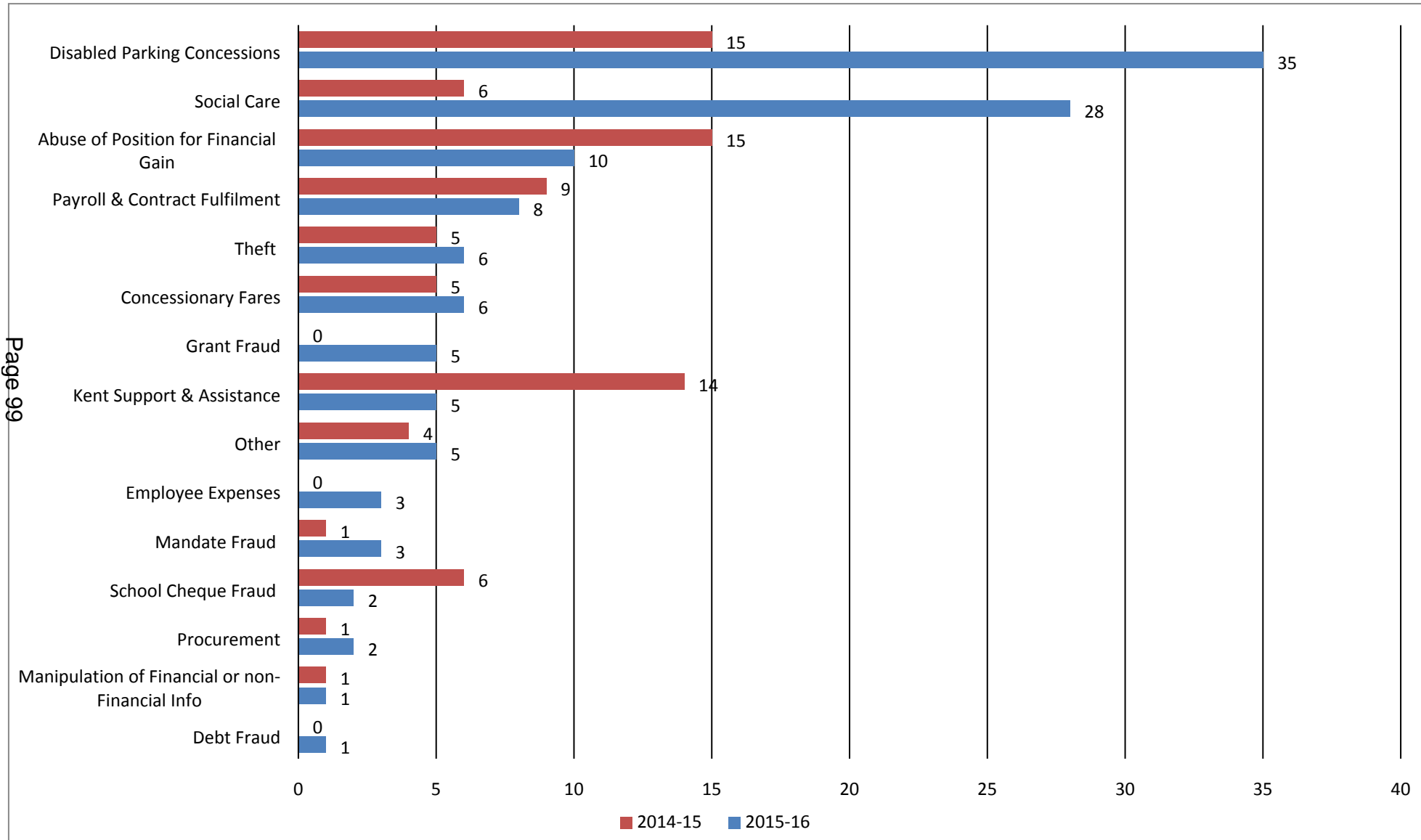
## 5. Counter Fraud and Corruption Fraud and Irregularities

- 5.1. We have recorded 120 irregularities in 2015/16 of which 43 remain under investigation and 77 have been closed. The potential / notional value for these cases is £1.5m. This figure includes actual losses (from opened and closed cases) and prevented losses (where no actual loss occurred) and is skewed by a number of high value potential grant frauds.
- 5.2. Tables CF1 to CF4 compares activity from 2014-15 to 2015-16 and summarises the irregularities by type of fraud, source and directorate.

### CF1 – 2014/15 & 2015/16 Irregularities

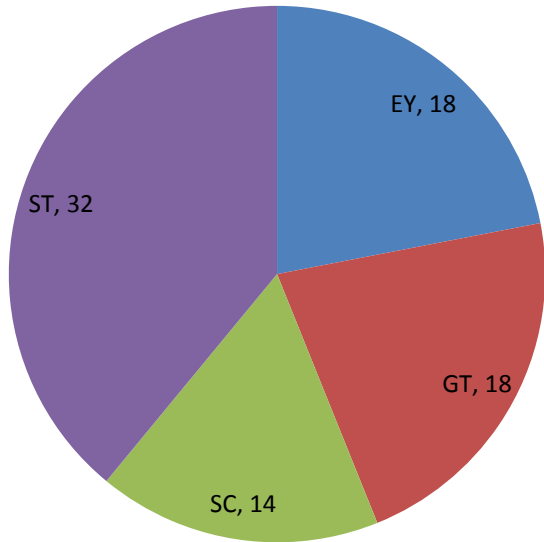


## CF2 – Irregularities by Type

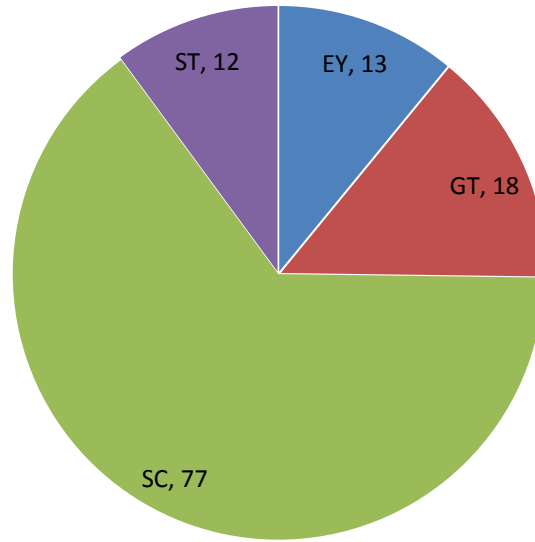


**CF3 – Irregularities by Directorate**

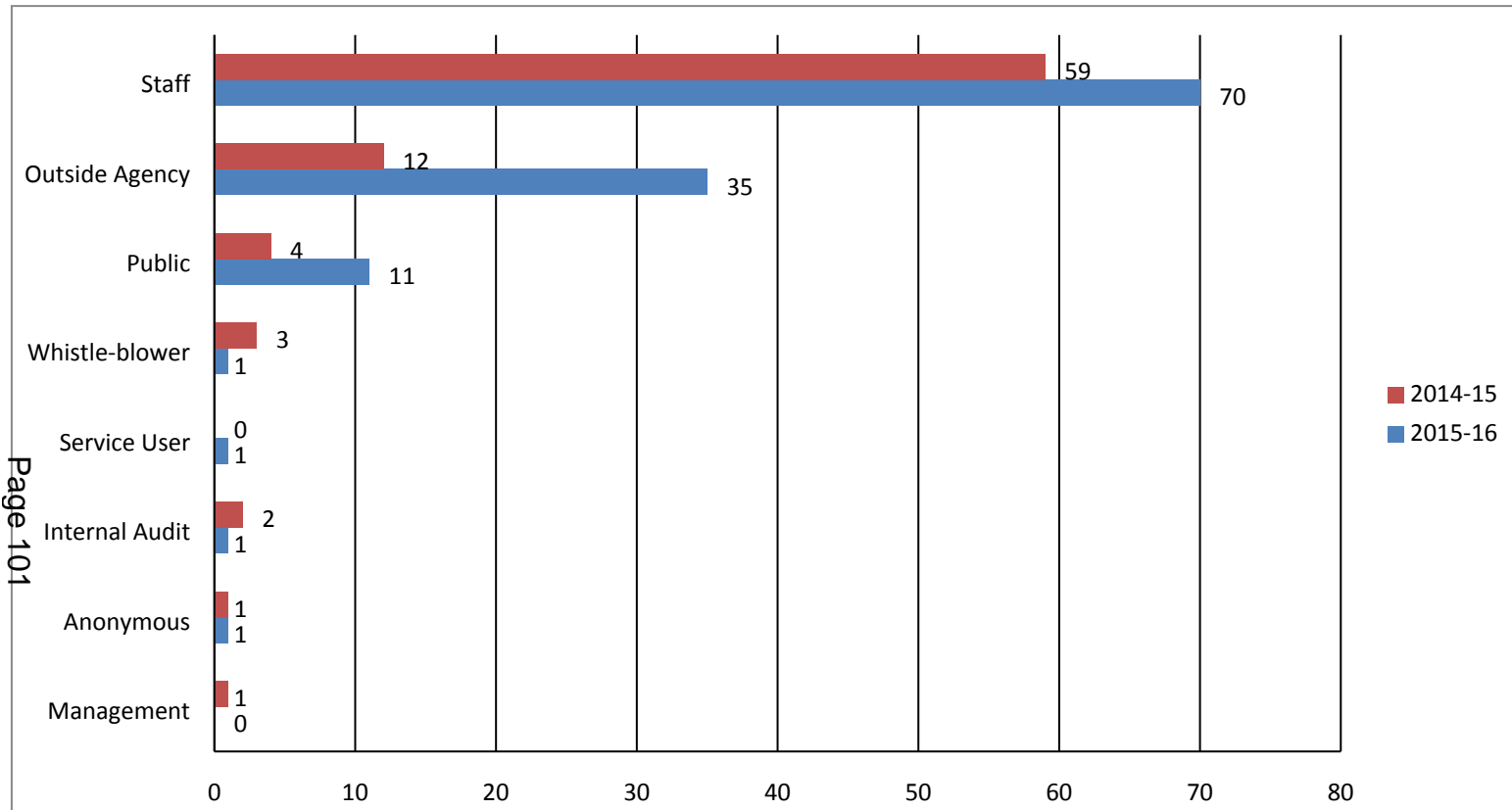
**2014/15**



**2015/16**



## CF4 – Irregularities by Source



- 5.3. There has been a notable increase in reports of Blue Badge misuse. This is a direct result of our work to support District, Borough and City Councils in tackling Blue Badge fraud (summarised below). The figures and charts also identify a significant increase in Social Care fraud, this is because we have recently re-evaluated the classification of Direct Payment misuse and aligned our classification of this type of fraud with other County Councils. There has not been a significant increase in fraud in this area and our level of support and investigation remains the same as previous years but the figures now properly represent the fraud risk and activity.

## **Kent Intelligence Network**

- 5.4. We previously reported successfully applying for funding from the Department for Communities and Local Government (DCLG) in collaboration with District Council's and other public sector bodies across Kent to form the Kent Intelligence Network (KIN) which through data analytics is designed to tackle fraud and error by sharing and matching data. As a reminder this has the potential at the most pessimistic forecasts of saving £3.5 million per annum across the County.
- 5.5. Our progress to date with this project has been more difficult and time consuming than originally planned due to practical difficulties of co-ordinating 14 different bodies as well as resolving data protection issues. As previously reported we have procured the data analytics in October 2015 and staff are fully trained. We have also entered agreements for further data matching with other agencies. The Charity Commission has also expressed an interest in working with us to deter false statutory and discretionary business rate charitable relief awarded across the County.
- 5.6. As at the end of March we still await final agreement to protocols from the District Council's to allow the commencement of formal data matching. We are hopeful this will start by July 2016

## **Follow Ups**

- 6.1 With the exception of specific follow up audits of activities detailed above we have not undertaken any wholesale follow up activity in this period. Such all-embracing follow up work will take place in the next 6 weeks and will involve a new process whereby Directorates self-evaluate their responses and progress against agreed audit issues and which will then be subject to independent checking by ourselves. These results will be brought to the July meeting of this Committee.

## **7 Work in progress and future planned coverage**

- 7.1 Appendix C details progression against the agreed plan coverage and substantiates the estimation that we are on target to achieve our planed coverage.
- 7.2 Current works in progress that have reached final reporting stages include:
- Consultations
  - Kent Resilience Team

- Adult Safeguarding
- Corporate Governance
- Member expenses (follow up)

- 7.3 For the remainder of the year we have a number of substantive audits which are works in progress including
- Input towards the Annual Governance Statement
  - Adoption
  - Children with Disabilities
  - Deprivation of Liberty Assessments (DOLS)
  - Autism
  - Expenses Follow Up
  - Performance Management and KPI review

## **8 Internal Audit and Counter Fraud Performance**

Performance against our targets to the end of December 2015 are shown below:

<b>Performance Indicator</b>	<b>Target to end March</b>	<b>Actual</b>
<b>Outputs</b>		
100% of Priority 1 audits completed	100%	90%
50% of Priority 2 audits completed	50%	55%
Time from start of fieldwork to draft report to be no more than 40 days	100%	54%
No of fraudulent incidents / irregularities recorded	N/A	120
<b>Outcomes</b>		
% of high priority / risk issues agreed	N/A	99%
% of high priority / risk issues (fully) implemented	N/A	To be reported next meeting as part of formal follow ups
% of all other issues agreed	N/A	92%
% of all other issues implemented	N/A	To be reported next meeting

		as part of formal follow ups
Client satisfaction	90%	91%
Value for money savings identified to date	N/A	£238,000
Total Number of occasions in which		
a) Fraud and		56
b) Irregularity		21
were identified		
Total monetary value detected of		
(a) Fraud		£102,341
(b) Irregularity		£945
Total monetary value recovered of		
(a) Fraud		£81,168
(b) Irregularity		£482

9.0 **In Conclusion**

- 9.1 We are satisfied that over the past 11 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.
- 9.2 In addition line management have taken, or have planned, appropriate action to implement our issues and recommendations
- 9.3 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 January – March 2016

### Public Health

Audit Opinion	Adequate
Prospects for Improvement	Adequate

The Division displayed a clear and well-grounded vision for the current and future provision of Public Health across Kent which appears measured and appropriate for the risks and future challenges to be faced. A number of individual successes and service improvements have already been achieved.

What was less clear was the ability to act as a cohesive team to jointly own, manage and deliver on these forward plans. It is evident that improvements will be achieved at a quicker pace with risks more effectively mitigated if differences across the team are resolved and goals and plans are integrated and jointly owned.

The weakening of controls in areas such as performance and quality monitoring as a result of these tensions are of particular concern.

#### Strengths

- A clear strategy and vision embraced in an up to date business plan.
- Future direction in the Transformation Plan is based on sound principles.
- Top level Member led governance is good.
- Good challenge and iteration over KPI's which generally show a positive direction of travel despite a number of targets in service areas being missed.
- Constructive partnerships with external stakeholders and commissioners.
- Strong improvements in physical commissioning including the

- Quality assurance management systems are still evolving and engagement in the Quality Board has been poor. Some key staff do not recognise that they have an integral role to play in quality monitoring. Such weaknesses in quality assurance monitoring pose potential risks to the public and ultimately reputational risks to the Council.
- Transformational improvements are taking place at varying speeds with elements not linked to clear project plans.
- Mixed recognition and ownership of the change and transformation agenda amongst some key staff.
- Absence of a master plan to integrate all the proposed changes and enhancements across the Division.

#### Prospects for Improvement

Our overall opinion of Adequate for Prospects for Improvements is based on the following factors:

- Cohesive team working which is a root cause to many of the areas for development still remains a challenge to be resolved.
- After 3 years, more progress needs to be made in embedding quality management systems.
- Diverse plans for improvement across the Division are not yet integrated into a master plan.
- Absence of dedicated material resources and expertise to drive the transformational plans forward.
- Failure to delineate transformational change from business as usual operations may pose risks.
- The foundations for the transformation plan for discretionary services are rooted in good practice.
- Positive track record and credibility over managing recent grant funding reductions.
- Evidence of a track record of continuing improvements in selected areas from commissioning to the substance misuse (former KDAAT)

replacement of traditional block contracts with more focused activity based models.

- Robust financial controls and a proactive approach to current and future budgetary reductions.
- Transformation plans and principles have been effectively communicated to external stakeholders.

**Areas for Development**

- An urgent need to improve cohesive working across the Division and resolve issues over cultures, personalities, roles / responsibilities and expertise. Issues of accountability at senior levels also need to be resolved.
- Inconsistent application of key elements of the commissioning cycle, more particularly initiation and feedback / performance quality monitoring elements where there is often a lack of clarity between Public Health consultants and commissioning team responsibilities.

service.

**Summary of management responses**

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	2	2	
Medium Risk	5	5	
Low Risk	0	0	

## Information Governance Toolkit Compliance Review

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Good</b>

The Information Governance Management Framework sets out roles and responsibilities for Information Governance. This is supported by a comprehensive suite of policies. In addition to legal and regulatory compliance, the council is required to meet the annual certification requirements of the Public Service Network for all information classified as OFFICIAL and achieve a 'satisfactory' assessment against the requirements of the NHS IG Toolkit.

The current Local Authority version of the NHS IG Toolkit (v13) requires a single submission for all relevant services by 31 March 2016. Other than EY Early Help and Preventative Services, these services sit within the Social Care Health and Wellbeing Directorate.

Information Governance audits are conducted annually with a cyclical review of key areas.

The most recent audit was carried out in Q4 2014/15 and was given a Substantial opinion.

At the time of our audit fieldwork, evidence was in the process of being reviewed and uploaded onto the Toolkit, and hence we were not able to assess its completeness in line with our original audit scope. Instead, and by agreement with the Corporate Information Security Officer, we interviewed key business representatives to discuss the processes that they have in place to demonstrate compliance with the IG Toolkit requirements.

Our assurance opinion of Substantial is based upon the following strengths and areas for development in relation to IG arrangements:

### Key Strengths

- The Corporate Information Security Officer works closely with business areas to ensure that their processes satisfy the requirements of the IG Toolkit and other key IG legislation.

### Areas for Development

- Although not a specific requirement until 2016/17, the Code of Practice on Confidential Information will require more explicit purpose statements regarding the purpose for use of personal information and the right of the public to object. Work is on-going to formalise these statements but is not yet complete. No issue is raised, but we encourage that statements be completed ahead of next year's submission.

### Prospects for Improvement are assessed as Good due to the following factors:

- It was evident from discussion with the Corporate Information Security Officer that processes are continually evolving and the profile of Information Governance is being promoted effectively.
- One agreed action from the 2015 report (relating to standard operating procedures for Information Sharing Agreements) remains outstanding and its target implementation date is now revised to 30/6/2016

### Summary of management responses

No new issues have been raised in this review.

## Review of Third Party ICT Contracts

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Good</b>

This audit reviewed controls over the management of contracts where third parties might have access to KCC data, and whether such contracts adequately protect the confidentiality and security of data. Eight such contracts were initially selected to comprise our sample, however one of these was dropped during fieldwork because early discussion identified that third party access was not applicable.

Our limited audit opinion is based on the following strengths and areas for development, which were generally consistent across the contracts reviewed.

### Strengths

- For six of the seven contracts sample tested, we were able to obtain a copy of the contract.
- A Contract Manager was in place for each contract.
- Contract Managers were aware of their responsibilities and met regularly with their counterparts.
- All the contracts reviewed included clauses to address the confidentiality and protection of data.
- ICT has a Request for Access (RFA) process which restricts third party access to internally hosted applications / data for a defined period.

### Areas for Development

- The corporate contracts register needs to be updated to hold key information relating to all contracts above the specified threshold.
- Reliance is placed on the experience of individual contracts managers, and contract management processes were inconsistent.
- Contract management meetings are rarely, if ever, documented.
- A contracts management training course is available, but only one of the contract managers we interviewed had attended.

Prospects for Improvement are considered to be good due to the following factors:

- There are plans for the Strategic Business Development & Integration team (SBDI) to have an oversight role in contracts management.
- Contract management training is being rolled out further during 2016/17.

### Issues and management responses

This review had some overlap with the audit of 'Contracts Management Themed Review' and some of the agreed actions from the Contracts Management Themed review also address the issues identified in this ICT Contracts review. As a result, no new issues have been raised in this report, although three of the issues from the Contracts Management Themed Review have been repeated in this report with additional management actions agreed where appropriate.

## Leaving Care

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Good</b>

The aim of the audit was to provide assurance that the transition from the voluntary sector has taken into account all key risks and statutory requirements and that the current service is fit for purpose and has good prospects for further improvement. This includes assessing the actions taken to ensure that safeguarding, legal, financial and performance risks are effectively managed in order to meet service and corporate objectives.

The gross budget for the service is £5.5 million and the current caseload is 1007 (January 2016 data).

The transfer of the Leaving Care service back in house was not without issues. Nevertheless, all cases we sampled had an allocated Personal Advisor who demonstrated a good understanding of the issues facing individual young people, and a pathway plan in place. Unfortunately the service is under considerable pressure including high caseloads and one area did not have a team manager for four months in 2015. This has had inevitable quality consequences. We found shortcomings with approximately half the documented pathway plans, including instances where they did not cover all statutory requirements or did not address the current risks and issues. There were also issues with budget monitoring information. Management are taking actions to address the majority of these issues.

### Strengths

- The Care Leavers Policy is comprehensive and up to date.
- The integrated Leaving Care team was delivered on schedule in December 2014, covering both indigenous and UASC care leavers.
- Personal Advisers interviewed were familiar with the requirements

### Areas for Development

- Approximately half of Leaving Care pathway plans we reviewed from the SCS Leaving Care teams were out of date or incomplete
- Support Plans produced for young people transferring to Adult Social Care rather than the SCS Leaving Care teams did not always include the statutory requirements for pathway plans.
- The measured outcomes for care leavers in terms of the numbers engaged in education, training and employment are currently not meeting the target that Kent has set and is below the national average. Although data quality issues have been identified and are being addressed they do not account for all of these issues.
- Discussions with staff in the Leaving Care teams (including former “Catch 22” employees, members of the previous UASC team and new starters) identified some issues with integrating the teams and cultures.
- Budget monitoring for Leaving Care has been limited. Work is ongoing with the Revenue Budget Monitoring team to fully understand and model the costs for the Leaving Care service and facilitate robust budget monitoring for 2016/17.
- There has been difficulty recruiting permanent staff at team manager level (there was no team manager in East Kent for four months in 2015) and high case loads have been raised as a concern by a number of Personal Advisors.
- We were not provided with evidence of regulatory property inspections for nearly half of properties in our sample.

### Prospects for Improvement

- Good understanding of the key issues facing the service and measures in place to address these, including recruitment of additional Personal Advisers to reduce caseloads.
- Positive response to issues raised as a result of the audit and commitment to take timely action.
- Commitment from managers and Directors to improve the quality of

of the Care Leavers policy and were able to provide practical examples of how they implemented this in practice. They demonstrated detailed knowledge of their cases in interview.

- All young people in our sample from the 18+ teams in SCS had a pathway plan recorded on Liberi.
- Where care leavers were not engaging with the service, there was evidence on file that Personal Advisers had tried to maintain contact using a variety of means.

the service. This is recognised as a priority for 2016/17.

- The position of the service within the SCS structure is due to change to align it with the rest of Corporate Parenting.
- Processes are being re-designed to simplify the maintenance of pathway plans.
- Our perception is that some existing staff are demotivated due to a decrease in post grading at the same time as increase in workload.

#### Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	2	2	
Medium Risk	5	5	
Low Risk	1	1	

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

The overall objective was to provide assurance that the monitoring arrangements for all RGF schemes are appropriate and in line with the requirements of the Department of Business, Innovation and Skills (BIS) and Kent County Council (KCC). We assessed the adequacy of controls over the monitoring of objectives/outcomes, repayment processes and procedures, and the arrangements for dealing with companies in liquidation.

The RGF was last audited in November 2015, covering the processes and controls over applications, assessments, approvals and payments. An adequate assurance opinion was given. The management actions proposed at that time to deal with the issues identified have mostly been implemented. This audit concentrated on monitoring, loan repayments and liquidations and found that the controls are well defined and generally operating satisfactorily.

**Strengths**

- The records and filing systems are well documented and information concerning the administration and monitoring of loans was available and accurate.
- Repayments are well managed with a defined follow-up process for late payments. Site visits have been incorporated into this process at an appropriate stage. The records are accurate and easily available.
- Efforts are made to identify when a company is experiencing difficulties and contact is made to ensure that the company is aware of what assistance is available. Where appropriate, revised repayment arrangements are negotiated and these are appropriately authorised.
- Other assistance in the form of 3<sup>rd</sup> party consultancy is provided to review business progress and assist with rescue plans where appropriate.
- Lessons Learned logs on individual company liquidations are now prepared.
- There has been close co-operation with Internal Audit on a number of cases where further investigation was required.
- Bearing in mind the inherent risks within the companies funded an 85% repayment and 3.3% liquidation level to date is good.

**Areas for Development**

- The procedure and process notes for monitoring, repayments and liquidations need updating to ensure that a consistent approach is adopted throughout all schemes. This should include a review of the differences in processing monitoring reports to understand why one of the schemes (Expansions East Kent) has a significantly lower return rate.
- The monitoring checklists in use vary from scheme to scheme and need to be consolidated to make use of the best characteristics in one form. The RGF are trialling different approaches and therefore the checklists will vary until the pilot has reached a conclusion.
- The data used to reconcile information used in the Economic Development Cabinet Committee Report is collated at a specific date from monitoring returns which continue to be updated as more information is received. A copy of the data as at the reporting date is not retained and therefore we are unable to confirm the accuracy of reporting to the Cabinet Committee.

**Prospects for Improvement**

Prospects for Improvement have been assessed as **Good** due to the following:

- The RGF Team is receptive to feedback and has demonstrated continued process improvement.
- The arrangements made and lessons learned from administering these schemes has informed improvements to the existing schemes and will inform new schemes to be introduced later this year for the re-allocation of monies already repaid.
- Overarching lessons learned from all liquidations to date have yet to be collated.

**Summary of management responses**

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

## Risk Management

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Adequate</b>

The aim of the audit was to provide assurance that the Council has adequate and robust risk management arrangements in place to support delivery of objectives and the Annual Governance Statement, and particularly that corporate risks are underpinned by robust risk management processes at lower levels.

The report includes a summary of actions taken following last year's audit and also identifies a number of themes from this year's audit. We have fed back on specific issues to the relevant divisions and the Corporate Risk Manager.

### Strengths

- There are monitoring and reporting processes in place for risk management across the Council at Corporate, Directorate and Divisional levels.
- There was a good understanding of risk management across the divisions and teams we met with.
- Although some gaps were identified in divisional risk registers, the majority of information was up to date and there was an officer responsible for monitoring risk within each of the divisions we tested.
- Progress has been made on issues identified in the previous year's Risk Management audit, with three of the five issues now fully addressed.

### Areas for Improvement

- Two of the five issues identified in the 2014/15 audit are not yet fully resolved (risk appetite and control descriptions) despite action being taken by management..
- A number of risk registers were not complete and there were some discrepancies in the information provided, for example actions being taken to treat a risk despite the current risk level matching the target level.
- The level of support required from the Corporate Risk Team varied from team to team. In one instance the sustainability of the risk management systems was largely due to direct involvement from Corporate Risk.

Prospects for Improvement are considered to be Adequate due to the following factors:

- The Corporate Risk Team have taken actions over the past year to address issues raised in the previous audit.
- Despite these actions two issues have not been fully resolved and some teams still lack the expertise or understanding of risk appetite or how to provide comprehensive control descriptions to mitigate risks.
- The capacity of the Corporate Risk Team is such that it can only undertake monitoring of the underpinning risk registers and meet with all services on an occasional basis. The risk team are providing extensive support to one Directorate which indicates issues with longer term sustainability. We noted that the support offered was clearly valued and necessary
- Actions have been agreed with the Risk Management team and further work is being undertaken to disseminate key messages.

### Summary of management responses

	<b>Outstanding issues from 2014/15 audit</b>	<b>Management Action Plan developed</b>	<b>Risk accepted and no action proposed</b>
High Risk	0	0	
Medium Risk	2	2	
Low Risk	0	0	



## Recruitment & Retention Incentives

Audit Opinion	Limited
Prospects for Improvement	Good

KCC has a Market Premium Policy for the recruitment and retention of staff to certain roles. The policy outlines KCC's approach to the payment of market premia as a way of ensuring the authority can attract, motivate and retain appropriate staff. A Market Premium payment is an addition to salary.

The focus of this audit was those market premia applied to roles within Social Care.

The level of spend on agency workers in social care is high and in order to reduce this spend and maintain a stable workforce to provide continuity with clients, there are now incentives to aid the recruitment and retention of certain staff. There has also been a national shortage of children's social workers.

A 'Social Worker Market Premium' was introduced from December 2014 to ensure that there was a competitive reward package in place to enable Kent County Council to recruit and retain staff in critical and demanding roles and teams. Social Workers and Senior Practitioners in particular teams are eligible for market premium payments. The total of incentive payments made to date is in excess of £2 million and the majority of this relates to Specialist Children's Services Social Workers.

### Strengths

- Indemnity forms have been completed for all staff that had received a Golden Hello payment.
- All social worker retention payments were appropriately authorised through Oracle self-service.
- The effectiveness of the schemes to date was reported to the Children's Social Care and Health Cabinet Committee in January 2016.

### Areas for Development

- Staff who receive a golden hello and leave KCC within 2 years are not being requested to pay back the money, despite having signed indemnity forms.
- Policy and procedures need clarification on whether market premium payments are pro rata relating to staff that work reduced hours.
- It is unclear whether car allowance payments should be included in contracts of employment and there is currently inconsistent practice.

**Prospects for improvement** are considered to be good based of the following factors:

- A review of the incentive schemes in SCS is planned.
- Management have responded positively to the issues raised in this report and developed appropriate action plans to address them.

### Summary of management actions & progress

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

## Settlement Agreements

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

The aim of the audit was to provide assurance that the use of settlement agreements for staff leaving the Council, and the disciplinary or other process supporting those, is appropriate and authorised.

There are good processes in place to manage settlement agreements and these are followed consistently. Some minor areas for improvement were identified, see below:

### Strengths

- Policy and guidance is in place and available to the relevant officers.
- Correct processes are followed for any disciplinary action proceeding settlement agreements and alternative courses of action are being considered.
- Settlement agreements are signed off correctly by the claimant, their independent legal advisor and Legal department.
- Settlement agreements are held on employee's personnel files.
- Value for money is considered and appears to be achieved through the use of settlement agreements.
- None of the employees in the sample had been re-employed by the Council.

### Areas for Development

- In 90% of our sample value for money was not quantified at time of settlement agreement.
- The settlement agreement retention period is not included in the document retention schedule and not all settlement agreements were included on the HR record of agreements.
- One instance was identified where payment was made to an employee without authorised settlement agreement on file.

**Prospects for Improvement** are considered to be Good due to the following factors:

- The Council responded promptly to changes in legislation in 2013
- The settlement process has been actively communicated
- Issues have been agreed and actioned by management

### Summary of management responses

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

## Local Grant Schemes

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Good</b>

The audit review highlighted that there is an inconsistent approach within the authority to the administration and awarding of grants. None of the grant schemes we tested complied fully with all of the expected controls, although two schemes were meeting most of the requirements (Member Grants and the Low Carbon Plus Project).

As a result of the inconsistent practices, some of the local grants schemes that are funded and administered by KCC are potentially susceptible to error and fraud and improvements in the application, award and monitoring processes are required. In addition, data published in accordance with the statutory Transparency Code is currently inaccurate. It is important to state that we did not identify any instances of fraud during the course of the audit; however failing to detect fraud in a random sample is not unusual and this should not be taken as an indication of a low fraud risk.

We did find areas of good practice that could be introduced across the authority to ensure that the process of applying, awarding and monitoring grants is better controlled and more consistent and have highlighted an example from the Low Carbon Plus Project.

### Strengths

- A Voluntary and Community Policy is being implemented and will seek to standardise the grant process within the next two financial years (the delay is due to the phasing out of existing grant

- There is no complete and accurate record of all locally administered grants within the authority.
- Five payments (29%) were not subject to a formal application process.
- Seven payments (40%) were related to grants that have been awarded on a rolling basis over many years without a formal re-application process from the original end date, or
- Three payments (17%) were made without a formal grant agreement and a further three payments did not have a signed agreement.
- Nine of the payments did not have a separate and clear process for decision makers to record any declarations of interests, and therefore relied on the arrangements set out in the Kent Code.
- Five of the sample did not have formal records of the grant decision making process.
- Two of the grant agreements did not specify that outcomes would be monitored.
- Four grant agreements were not monitored adequately.
- We identified five payments where monitoring information was not sufficiently detailed to explain grant expenditure and in some cases, no scrutiny of this information was undertaken by grant administrators.
- There is evidence that there is incorrect grant data published to support the requirements of the Transparency Code.

### Prospects for improvement

We have assessed the prospects for improvement as good because of the

arrangements). The policy provides a clear strategic approach for future grant funding arrangements; compliance with the principals of this policy will improve grant administration.

- There is an established grant payment process in place which is utilised appropriately.
- Grant applications tested met the required criteria and were correctly completed.
- We found that grants were awarded to genuine organisations and/or charities in all cases we tested. Furthermore, the organisation and/or individual applying for the grants were eligible to make an application in accordance with the individual grant criteria.

**Areas for Development**

We initially sampled 33 payments across the Directorates. 16 of these payments were in fact related to contracts or there was insufficient information to complete our testing. Out of the remaining 17 payments understood to be grants we found that:

following factors:

- A new authority wide grant framework has been established within the Voluntary and Community sector policy. Future awards will need to meet KCC’s three strategic outcomes with future plans to integrate and standardise grant applications centrally. Adoption of this policy across the Council will improve administration and outcomes and reduce the fraud risk profile.
- There were areas of good practice that could be shared within the authority.

There is currently no central control or responsibility for grants; hence we reported our findings to the Head of Paid Service and Corporate Director of Finance and Procurement. As a result it’s leading on a corporate wide overhaul of systems.

**Summary of management responses**

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

## Financial Assessments Follow Up

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

The overall objective of the audit is to provide assurance that procedures and processes that are in place ensure the accurate assessment of client's contributions towards the cost of their care. This included testing that the issues identified in the Income & Assessment Unit – Financial Assessments audit in 2015 have been implemented.

The service has transferred to the Business Service Centre since the previous audit. A review of performance monitoring arrangements and the procedures for deferred payments (post the Care Act) identified that the system of control is sufficiently sound to manage key risks in these areas.

Our follow up audit has identified that management have acted on the three medium priority issues raised at the original audit. However, implementation of two of the issues requires additional attention.

### Strengths

- Financial Assessments are processed promptly, with performance currently exceeding the 85% KPI for completing referred cases with SWIFT provision within 15 days.
- There is robust scrutiny of the monthly performance indicators by Financial Services.
- Successful implementation of the changes required to the deferred payments process by the Care Act 2014.
- The number of deferred payment cases awaiting a legal charge on property is relatively low and these are being progressed appropriately by Legal.

### Areas for development

- Although a quality review process has been put in place, it is not focussed on the impact of an errors or missing information on the accuracy of the assessments and the outcomes are not reported.
- Assessors are still not consistently fully completing FAF's and not all the documents that have been used as evidence are recorded or kept.
- The explanations provided where performance indicators do not meet target levels are not always sufficient.
- Current work monitoring relies on excel spreadsheets and is not linked to the source systems (SWIFT and Oracle).

Prospects for improvement have been assessed as Good due to the following factors:

- Management are exploring more automated ways of monitoring the timeliness of completing assessments.
- It is hoped to make processes more joined up with systems (SWIFT / ORACLE) and move away from the current Excel spreadsheets used to manually log the referrals and to compile the performance indicators.
- The Financial Assessments are completed by a team who have demonstrated the knowledge and expertise of the process.
- Action has been taken on the previous issues identified, but there is a need to consider the effectiveness, outcome and reporting of changes that are made.

### Summary of management responses

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

## Pensions Contributions

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Good</b>

The overall opinion is based on sample testing, review of documentation and interviews with key officers, which identified that controls are operating adequately and effectively. Based on the sample of transactions tested we are satisfied that there is an adequate system of control in place to ensure contributions are being correctly calculated (based on pensionable pay) and paid into the Pension Fund.

### Strengths

- Detailed and up to date policies and procedures are in place.
- Contributions are calculated based on employers' pensionable pay and at the correct percentage rate.
- Controls within the pension contribution monitoring workbooks identify any differences between the expected employer contributions and the payments received.
- Reconciliations with Oracle are performed monthly.

### Areas for Improvement

- Recognise multi-academy trusts as employers in the Fund and ensure the system can manage the establishment of new academies and their movement between trusts.
- Keep the current Excel spreadsheet based system under review to ensure it can continue to support the increasing number of employers in the Fund.
- Explore other options for recording employer contributions including greater use of the Pension Fund website.

### Prospects for improvement are Good due to:

- Appropriate action plans have been developed in response to the issues identified from our audits.
- Management are preparing for the upcoming valuation as at 31 March 2016 and implementation of new employer rates from 1 April 2017.
- The systems in place have been developed in-house based on Excel spreadsheets which may not be appropriate if the number of employers in the scheme increases significantly. Management are fully aware of this and are making appropriate plans.
- Pension contributions are processed, monitored and reconciled by a small team who have a good understanding of their role and processes. However, succession planning is required.

### 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

## Pension Scheme Administration

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Very Good</b>

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK with over 4 million members. It is a tax approved, defined benefit occupational pension scheme set up under the Superannuation Act 1972.

The Scheme is administered locally through 90 regional pension funds. The Kent Pension Fund is one of these regional pension funds and is administered by Kent County Council. The Kent Fund has approximately 36,000 pensions in payment. As of March 2015 the value of the Kent Fund was £4,539 million.

LGPS 2014 was introduced in April 2014 after changes to pension legislation. The new scheme operates on a Career Average Revalued Earnings (CARE) basis and affects contributions made after 1st April 2014.

### Strengths

- Accurate calculations and processing is evident across the Pension Administration section and this is ensured through an internal checking system.
- A training structure is in place to ensure that those who carry out checks are suitably experienced.
- Payments are appropriately authorised.
- Annual Benefit Illustrations are produced for all relevant active members.
- New KCC employees are automatically enrolled in the pension scheme.
- Validation exercises are carried out to ensure the accuracy of data held for each new joiner.
- Scheme member's retirement instructions are followed accurately.
- Scheme members are made aware of potential pension scams when transferring their benefits out of the Kent Pension Fund.
- Transfers in and out of the scheme comply with LGPS regulations and scheme rules.

### Areas for Improvement

- There is a backlog of work, impacting the timely processing of concurrent, aggregation, deferred benefits and refund cases.
- Paper records are not stored securely.
- Uncertified photocopies of documents to verify date of birth are accepted.
- Documents scanned on to scheme member records are inconsistent in quality, with some being illegible.
- Evidence used in the collation of KPI data and the annual data review exercise is not retained and we were therefore unable to confirm the accuracy of reported KPIs.

Prospects for Improvement are considered to be Very Good based on the following factors:

- There is an action plan in place to address the backlogs of work, although this may take some months for some areas (for example guidance is awaited on the aggregation of benefits).
- Management have responded positively to the issues raised in this report and developed appropriate action plans to address them.
- The Pension Administration system has recently been updated.

### 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	0	1

## Total Facilities Management Helpdesks

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Adequate</b>

The aim of the audit was to provide assurance that all property calls are accurately logged, appropriately responded to within the agreed service standards and that any costs incurred are in line with contract terms.

It should be noted that since the audit was undertaken, the management of two of the contracts has changed and there is a new Head of Property Operations in post.

Each of the three Helpdesks operates a function to process incoming tasks and complaints under the TFM contract. However, issues have been identified which impair contract performance such as miscategorised calls, unresolved open tasks and limited information for KPI monitoring and reporting. There was an incomplete audit trail for some billing reports provided by the Helpdesk which means that we could only review certain elements of the cost section.

### Strengths

- A number of tasks sample tested were correctly categorised and the agreed response times were met.
- All three Helpdesks had a policy for complaints handling.

### Areas for Improvement

- One Helpdesk does not use the full range of categories to log calls, including the 'A' category which is required for urgent jobs which impact on health and safety, security or business continuity.
- Two contractors were using a 'J' code, which is outside the service specification and does not have a target response time associated to it within the contract.

- We identified a significant number of incorrectly categorised calls across all three Helpdesks.
- Call waiting times are not comprehensively monitored and there was a lack of information for KPI reporting purposes.
- Calls which remain open beyond the agreed response times are not monitored by two of the Helpdesks.
- Repeat requests are not monitored or reported. The KPI measure for this performance indicator was not fully understood in some cases.
- Two of the Helpdesks had a significant number of complaints processed outside the agreed timescales and records of complaints logged could not be located at the other Helpdesk.

Prospects for improvement have been assessed as Adequate because of the following factors:

- Contractors did not have a sufficient understanding of KPI's during the audit, specifically Repeat Requests.
- Issues raised within the audit have been acknowledged by the Contractors and TFM contract managers however, full action plans have yet to be reached for some of the issues raised for one contractor.

### 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	1	1	0



## Contract Extensions and Variations

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Adequate</b>

Kent County Council enters into large numbers of contracts for service delivery. The amount spent over the lifetime of the contracts logged on the Kent Business Portal is approximately £2,074m and there are further contracts in place which are not centrally recorded (such as those valued at under £50k). Contracts may be entered into on behalf of the County by commissioning teams within directorates as well as by individual officers who are supported through the contract tender and letting process by the Procurement team.

The contract managers for the contracts selected for testing were all able to explain the rationale for the extension, although this was often not well documented. However, we found that the extensions for 3 of the 15 contracts sampled were not compliant in some form. There were also concerns with the approval of contract extensions, with no evidence of approval being available for 2 of the sampled contracts. For our sampled contracts, we established that contract variations were generally appropriately documented and approved.

### Strengths

- In all cases reviewed, officers were able to explain the rationale for extensions and these were reasonable.
- Contract variations were appropriately approved.
- In two instances although contracts had been rolled forward for a number of years, action had been taken more recently to enter into a new contract via a single source justification.

### Areas for Improvement

- There are currently no formal procedures or guidelines for contract managers covering extensions and variations.
- 20% of the contracts in our sample have been in place and rolled forward for several years beyond the contract specification.
- There was not always documentary evidence to support the reasons for contract extensions, such as market analysis and formal consideration of value for money.
- One contract extension exceeded the authorisers limit and another instance the contract manager was unable to provide evidence of approval.
- The 'Scheme of Delegation Approval Limits' is currently incomplete and needs to be updated.

### Summary of management responses

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

## Contract Management Themed Review

Audit Opinion	<b>Limited</b>
Prospects for Improvement	<b>Adequate</b>

The aim of the audit was to identify common themes and areas where there may be high risk issues or non-compliance. It also provides an assurance opinion over the contract governance arrangements in place, the support and training available to contract managers and provide a corporate resolution to the issues raised.

This audit reviewed issues coming out of previous Contract Management audits and reviewed a sample of ten additional current contracts.

### Strengths

- For all contracts sample tested, we were able to obtain a copy of the contract and there was a Contract Manager in place.
- Contract managers were aware of their responsibilities and stated they sought to achieve Value for Money.
- Monitoring procedures were in place for all contracts sample tested.
- Payments were being made in line with agreed contract values or performance standards where available.

### Areas for Development

- There were a number of recurring issues identified across contract management audits completed in the last 2 years and this suggests that lessons learned from individual audits are not considered for other contracts across the Council.
- Further evidence that the Contracts Register remains a 'voluntary register' with 7/10 contracts selected for testing not on the Register. As a result, statutory transparency reporting is inaccurate. Four of the contracts tested had a value of over the OJEU procurement tender threshold.
- None of the contracts reviewed had formal procedure notes for the management of the contract.

- There were few risk registers and issues logs in place for the contracts reviewed.
- Generally the contracts reviewed had KPIs in place but did not all have financial penalties attached.
- Inconsistencies and weaknesses exist across the Council; there were no specific 'hot spot' areas or departments.
- Training take up is mixed.

**Prospects for Improvement** are considered to be adequate due to the following factors:

- Issues raised in previous contract management audits have been resolved once identified, but there is a lack of corporate learning from issues raised across different teams.
- Contract management training has been well received and is being rolled out further.
- Of the issues identified and management action plans put in place in contract management audits previously undertaken, 73% had been resolved within the agreed dates for completion.

### Summary of management responses

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

## SEN Assessment and Funding

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

There are joined up and holistic processes being implemented leading to improved management of the budget and operational activities. Although a number of these were new and yet to be embedded. Provision of Management Information has improved and current forecast spend for Higher Needs Funding and Independent School placements is broadly in line with set budgets.

### Strengths

- Detailed guidance on Higher Needs Funding process and online tools, including flowcharts, screenshots and standard templates
- School referrals for statutory assessment pass through the Local Inclusion Forum Teams first, as a means of encouraging effective local provision.
- The needs of child/young person clearly identified before assessment
- Evidence of engaging parents in statutory assessment process
- New process and forms in place to agree and authorise independent school placements
- Centralised function for budget monitoring and validation of placement invoices has led to more accurate and robust forecasting
- Implementation of new managers decision forms and legal test for Independent Placements
- Implementation of new area action and improvement plans to monitor activity and performance without relying on Impulse.

### Areas for Development

- The majority of files examined were missing supporting information/evidence from case files, including manager decision forms for Higher Needs Funding and Statutory Assessments
- Current delegated spending systems for independent school placements are in breach of financial regulations
- Overdue reviews for Independent placements. The root cause of this was uncertain.
- Differing attitudes and practice when utilising the Dynamic Purchasing System process
- No single record of total costs for each placement,
- Some Individual Placement agreements do not include costs and terms & conditions
- Processes still being developed to verify agreed funding is spent in accordance to provision plans

### Prospects for Improvement are considered to be good because:

- Service is self-aware of issues that need to be addressed
- Evidence of new processes and controls being implemented to strengthen weak areas of practice around justification of decisions, funding agreed, budget monitoring and management information.
- Engagement with schools and continual work through user groups to improve the systems and processes.
- Recognition that Impulse is not fit for purpose and a project in place to review all EY systems and replace as necessary
- There is an inherent risk in implementing some improvements due to there being a lack of influence over schools, although there is evidence of engagement

### Summary of management actions & progress

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

## Schools Financial Services

Audit Opinion	<b>Substantial</b>
Prospects for Improvement	<b>Adequate</b>

The Department for Education requires that the Corporate Director of Finance and Procurement, as the Chief Finance Officer, signs an annual assurance statement confirming that 'there is a system of audit for schools which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending'

In order to facilitate this, there is a rolling programme of extensive compliance visits to schools in place. The visits are determined on a risk basis, every school having at least one visit every five years. Schools presenting a higher financial risk are given priority or may receive more frequent visits.

The R&CT within SFS is responsible for completing these compliance visits for Local Authority maintained schools in Kent. There are 100 planned visits to schools for 2015-16. From 1st April 2016 SFS will transfer to Education & Young People directorate.

### Strengths

- Introduction of a follow up process for SFS recommendations.
- Consistent recommendations are made.
- Reports are issued in a timely manner in line with internal Performance Indicators.
- The compliance work programme is consistently and promptly moderated.
- The work programme is reviewed and updated when appropriate.
- The standard work programme is completed on all school visits.
- Feedback meetings are held with schools prior to issue of the draft report.

### Areas for Development

- One medium risk issue raised in 2014/15 (to include cumulative spend testing in the compliance work programme) has not been implemented.
- The high risk issue regarding follow up of recommendations has been addressed, but has not yet bedded in and therefore we are unable to close it off at this time.

### Prospects for Improvement

Prospects for improvement are considered Adequate because of the following factors:

- Management are taking action to address the remaining issues from the 2014/15 audit.
- The work programme used for school visits is maintained in-house, is regularly updated and is fit for purpose.
- The team has an appropriate mix of experienced staff.
- The team demonstrated a higher level of compliance with international audit standards than last year.
- The number of schools subject to compliance visits has reduced by 20% over the last 4 years with no reduction in the size and cost of the R&CT.

### Summary of management actions & progress

	Number of issues raised in 2014/2015	Management actions implemented.	Issues not yet fully actioned
High Risk	1	0	1
Medium Risk	2	1	1
Low Risk	0	0	0

	Number of new issues raised	Management action plan developed	Risk accepted – no actions planned
High Risk	0	0	0
Medium Risk	1	0	1
Low Risk	0	0	0

## Schools Themed Review – Payroll & Income Processes

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

We visited 19 schools across Kent (the 20th school will be visited in April 2016 to allow sufficient time for the school to embed processes following returning full delegated control to the new Headteacher), to assess the effectiveness of controls for managing payroll and income processes. For Payroll the overall process was adequately controlled for the majority of schools, however some improvements are required in certain schools, particularly the sole example who manage their payroll in-house, and a common theme for rectification relates to authorisation controls. Income controls were largely effective across all schools sampled. We have identified the following Strengths and Areas for Development below.

### Strengths

#### Payroll

- Page 126
- Procedures supporting the day-to-day payroll process were generally not available.
  - Starters - two schools did not have a process whereby the Headteacher authorises starters forms and a few exceptions were identified in two other schools where authorisation had been documented.
  - Leavers - exceptions were identified across seven schools where leavers forms were not authorised.
  - Overtime - Across three schools we identified that not all overtime had been appropriately authorised; one exception at two schools and six exceptions at one school. In addition, one school was accumulating overtime over 6-months before reimbursing the staff member.
  - Expenses - Across five schools we identified that expenses were not appropriately authorised; one school was paying expenses through petty cash and for one school a member of staff had claimed for an i-phone at £650, which we would question whether was value for money or an appropriate purchase through expenses.
  - Maternity / paternity - one school had six staff with such records and the calculations had not been checked for any of these, nor had appropriate records been maintained. This school managed their payroll in-house.
  - Payroll production - several instances were identified where variance, exception and payroll reports were not authorised at some schools, one of which manages their payroll in-house.

#### Income

- Finance Policy - two schools had not defined their cash limits .
- Each school's Finance Policy specified the amount of cash that can be held on site, and this amount differed widely between schools ranging from £200 to £5,000.
- Not all schools had an approved Lettings Policy, and for three schools we were unable to confirm if the preferential rate was accurate due to insufficient information in the Lettings Policy.
- Procedures supporting the day-to-day income processes were generally not available.
- Receipts were not widely used for cash income, therefore a complete audit trail did not exist.
- Managing the income from vending machines varied, generally cash was counted but not second checked.
- Seven schools did not bank cash timely, five schools of which had cash above their specified limits before being banked.

#### Prospects for Improvement

Prospects for Improvement have been assessed as Good due to the following common factor:

- Each school has received an individual one page report outlining their specific Strengths and Areas for Development and has committed to take relevant action.
- We have started to receive confirmation from schools that actions are being implemented.
- Internal Audit will be presenting to the June Schools Finance Group meeting to provide an overview of the audit, themes identified and highlight corporate learning on good financial controls as a result of this audit.

#### Summary of management responses

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

## Section 17 Payments Follow-Up

Audit Opinion	<b>Adequate</b>
Prospects for Improvement	<b>Good</b>

Internal Audit carried out a review of Section 17 payments as part of the agreed 2014/15 Annual Audit Plan; the final report was issued in June 2015. The opinion arising from the audit was 'No assurance' due to significant control failures and, as a result of this it was subject to follow up.

In summary we previously raised two high priority issues and five medium priority issues. Both high priority issues were implemented within the agreed timescales. Revised guidance has been issued to staff and the payments we recently tested were authorised correctly. Unfortunately there are some inconsistencies in the application of the majority of medium priority issues.

The remaining medium priority issues (bar one) are linked to the implementation of the revised procedures. Our recent testing found that current practice is not consistent to these procedures such that shortfalls in the use of authorisation forms, supporting documentation, and uploading to systems were detected. There still remain difficulties in tracing payments back from the Oracle system. Management consider that additional time is required for the revised procedures to fully embed although this may require further work from management to ensure that operational staff adhere to the updated guidance. We have raised one further issue for management to consider.

### 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	1	1	0

## Capital Finance

Audit Opinion	<b>High</b>
Prospects for Improvement	<b>Very Good</b>

The overall objective of the audit was to provide assurance over the processes in place to accurately identify and account for capital spends, including updating the Fixed Asset Register. Due to the timing of the audit we have not been able to confirm the accuracy of the Fixed Asset Registers for 2015-16, but we have reviewed the arrangements in place for updating the registers for the year-end financial statements.

The Council's working budget for the 2015-16 Capital Programme is £367.6m (£329.8m excluding PFI).

The overall opinion is based on sample testing, review of strategies, policies, procedures and interviews with key officers which identified that there are appropriate controls in place to ensure capital is accounted for correctly.

### Strengths:

- There is a 3 year capital budget for 2015-18, an Asset Management Strategy 2013-17 and an annual Business Plan for Infrastructure and Property Services.
- The Management Guide to Capital Expenditure on KNet explains the capital approval process.
- There are robust processes in place to update the Fixed Asset Registers at the year-end to reflect additions and disposals in the year and reconcile to records maintained by property.

Prospects for Improvement have been assessed as very good due to the following factors:

- The Capital Strategy is 'forward facing' and reflects the council's strategic aims.
- The council is preparing appropriately for the significant change in accounting treatment for infrastructure assets and a project has been set up to manage this change.

No issues have been identified during this audit.



**Appendix B – Summary of Significant Concluded Financial Irregularities**

Ref	Internal/ External	Allegation	Outcome
890	Internal	The Head Teacher and Office Manager of a Kent school both used the school's purchase card for personal purchases over the course of several years.	Both members of staff were dismissed for gross misconduct and both have now been convicted of Fraud By False Representation. The Head Teacher was sentenced to 30 weeks imprisonment (suspended) and 150 hours of paid work. The Office Manager was sentenced to 12 months imprisonment (suspended) and 200 hours of unpaid work. Between them they must repay £13,842 to the school.

## Appendix C – Audit Plan 2015/16 Progress

Project	Progress at March 2016	Date to G&A	Overall Assessment	Project	Progress at March 2016	Date to G&A	Overall Assessment
<b>Core Assurance</b>							
Annual Governance Statement	Complete	July 2015	Substantial	Consultation	Draft Report		
Business Continuity	Complete	October 2015	Substantial/Good	Consultancy & Partnership Contract Arrangements	Complete	January 2016	Limited/Adequate
Transparency Code Compliance	Complete	October 2015	Substantial/Good	Contact Point	Deferred to 2016/17		
Information Governance	Complete	April 2016	Substantial/Good	Recruitment and Retention Incentives	Complete	April 2016	Limited / Good
Performance Management and KPI Reporting	In progress			Recruitment Controls	Complete	January 2016	Adequate/Good
Risk Management	Complete	April 2016	Substantial/Adequate	Payroll Key Controls Follow-up	Complete	October 2015	Substantial/Good
Corporate Governance – KCC	Draft Report			Pensions Payroll	Complete	October 2015	Substantial/Good
Departmental Governance Review – Public Health	Complete	April 2016	Adequate/Adequate	Pension Scheme Administration	Complete	April 2016	Adequate/Very Good
Corporate Governance – Alternative Service Delivery Models	Ongoing			Member and Officer Expenses – Follow-Up	Draft Report		
Implementation of Strategic Commissioning Strategy	Deferred to 16/17			Disclosure and Barring Service Process	Merged with Recruitment Controls		
Declarations of Interest	Priority 2			Oracle Right Now	Priority 2		
Programme Management and Corporate Assurance	Complete	January 2016	Adequate/Good	Learning and Development	Complete	October 2015	Substantial/Good
Portfolio and Programme Checkpoint Reviews	Ongoing			Compromise Agreements and Disciplinary Process	Complete	April 2016	Adequate/Good

Project	Progress at March 2016	Date to G&A	Overall Assessment	Project	Progress at March 2016	Date to G&A	Overall Assessment
Transformation and Change – Major outsource arrangements	Replaced by Contract Management Themed Review			Contract Extensions and Variations	Complete	April 2016	Adequate/Adequate
Contract Management Themed Review	Complete	April 2016	Limited/Good				
<b>Core Financial Assurance</b>							
Schools Financial Services – System of Audit	Complete	April 2016	Substantial/Adequate	Client Financial Affairs Follow-up	Complete	October 2015	Substantial/Good
Schools Themed Review – Payroll and Income	Complete	April 2016	Adequate/Good	Debt Recovery	Complete	October 2015	Adequate/Good
Payment Processing	Draft Report	January 2016	Adequate/Good	Financial Assessments Follow-up	Complete	April 2016	Adequate/?Good
Family Placement Payments				Grants	Complete	April 2016	Limited/Good
Pension Contributions	Complete	April 2016	Substantial/Good	Insurance	In progress		
Treasury Management	Final Draft	January 2016	High/ Good	iSupplier	Merged with Payment Processing		
Capital Finance	Complete	April 2016	High/Very Good				

Risk/Priority Based Audit							
Total Facilities Management (TFM) – Contract Management	Complete	January 2016	Limited/Good	Home Care	Complete	October 2015	Adequate/Good
TFM – Property Service Desk	Complete	April 2016	Limited/Adequate	Public Health Advice to CCGs	Merged with Public Health Governance Review		
New Ways of Working Follow-Up	Complete	January 2016	Substantial/Good	Sexual Health	Complete	January 2016	Adequate/Good
Data Quality – Oracle HR	Complete	January 2016	Substantial/Good	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	Draft Report			Health Inequalities	Merged with Public Health Governance Review		
Care Act – Pre and Post Implementation	Deferred due to delayed implementation of legislation			SEN Assessment and Funding	Complete	April 2016	Adequate/Good
Better Care Fund	Complete	January 2016	Adequate/Uncertain	Elective Home Education Outcomes	Priority 2		
Integrated Discharge Scheme	Priority 2			School Admissions – Fair Access	Priority 2		
Independent Living Scheme	Priority 2			Community Learning and Skills	Complete	October 2015	Substantial/Good
Pooled Equipment Budget	Priority 2			School Improvement Team	Deferred to 2016/17		
Boundary Re-alignment and Change Management	Priority 2			Troubled Families	In Progress and ongoing		
Mental Capacity Act and Deprivation of Liberty	In progress			Contract Management – Household Waste and Recycling	Complete	October 2015	Substantial/Good
Autism Service	In progress			Developer Contributions and Community Infrastructure Levy			
KCC/KMPT Partnership agreement and AMHP (Approved Mental Health Professionals) service	In Progress			Local Growth Fund and Local Enterprise Partnership	Planning		
Transformation and Integration of Disabled Services	In Progress			Regional Growth Fund	Complete	April 2016	Adequate/Good

Adult Social Care Transformation Phase 2	Ongoing			Broadband Delivery UK Watching Brief	Complete	April 2016	N/a – advisory only
0-25 Change Portfolio	Ongoing			Coroners Service	Priority 2		
Quality Assurance Framework Safeguarding Children	Complete	October 2015	Substantial/ Good	Allington Waste Incinerator Contract	Priority 2		
On-line Case File Audit – Children	Merged with Safeguarding Children			Transformation and Change – Transport inc SEN	Planning		
Missing Children	Merged with Safeguarding Children			Transformation and Change – Libraries, Registration and Archives	Cancelled		
Adoption Service	In progress			Transformation and Change – Property	Ongoing		
Looked After Children's Finances	Draft Report	January 2016	Adequate/ Good	Economic Development Contract Management	Merged with Contract Management Themed Review		
Section 17 Payments Follow-up	Complete	April 2016	Adequate/Good	International Development Team	Priority 2		
Leaving Care Service	Complete	April 2016	Limited/Adequate	Kent Resilience Team	Draft Report		
Foster Care Follow-up	Complete	October 2015	Adequate/ Good	Carbon Reduction Commitment – Annual Return	Complete	January 2016	Compliant
Older Persons Residential and Nursing Contract Re-let	Complete	January 2016	Adequate/ Adequate	Community Wardens	Priority 2		
Supporting People Follow-up	Ongoing support to review of Housing Support			EduKent Follow-up	Deferred to 2016/17		
<b>ICT Audit</b>							
Oracle Application Review	Complete	October 2015	Substantial/ Good	Review of Third Party ICT Contracts	Complete	April 2016	Limited/ Good
ICT Strategy and Governance	Deferred to 2016/17			Data Centres	Complete	January 2016	Substantial/ Good
ICT Change Control	Draft report	January 2016	Substantial/ Good	Swift Application Review	Priority 2		

Software Lifecycle Management	Deferred to 2016/17	WAMS Application Review	Priority 2		
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## Appendix D – Internal Audit Assurance Levels

<b>Assurance level</b>	
<b>High</b>	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.
<b>Substantial</b>	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.
<b>Adequate</b>	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.
<b>Limited</b>	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.
<b>No assurance</b>	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.

## Definition of Prospects for Improvement

### Very Good

There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.

### Good

There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.

### Adequate

Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.

### Uncertain

Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.



**By:** Mark Dance  
Cabinet Member for Regeneration and Economic Development

David Smith  
Director of Economic Development

**To:** Governance and Audit Committee  
Trading Activities Sub Group  
27<sup>th</sup> April 2016

**Subject:** Regional Growth Fund – Equity Investments

**Classification:** Unrestricted

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## Summary

Background and Update:-

Since November 2011 the Department of Business, Innovation and Skills (BIS) has allocated £55 million to KCC for three schemes:

- Expansion East Kent (£35 million)
- Tiger (£14.5 million)
- Escalate (£5.5 million)

These schemes provide grants, loans and equity investments for companies with investment plans that will lead to job creation.

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## Purpose

This report provides details on the investment strategy and governance adopted for equity investments made on behalf of KCC from the Regional Growth Funded programmes: Expansion East Kent, TIGER and Escalate.

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### **1. Equity Investment Strategy**

- 1.1 On 30<sup>th</sup> April 2013 the Expansion East Kent Investment Advisory Board approved amendments to the Investment Strategy to allow applicants the opportunity to apply for equity investment finance. The Expansion East Kent programme has offered equity investments from May 2013 to the present day. The aim of the investments from the RGF fund is to bring forward products from the research and development stage to commercialisation. The investment forms long term finance to enable the company to upscale their developments.
- 1.2 The other two RGF programmes TIGER and Escalate have adopted the same strategy as the Expansion East Kent programme. All three programmes are under the same governance arrangements.

## 2. Governance for RGF Programmes

- 2.1 The RGF funds operate under a contract from Department for Business, Innovation and Skills from round 3 of the Regional Growth Fund. Kent County Council is the accountable body for the funds.
- 2.2 Each Board receive written proposals from the company and all applications were assessed by an independent review team (from Pricewaterhouse Coopers (PwC) on the suitability of the investment. PwC's reports flag up issues for the Panel's consideration under the following six headings:-

1. Additionality
2. Jobs Created and Sustained
3. Funding
4. Value for money/ benefits to the economy
5. Financial Viability and sustainability
6. State aid

Each heading is given a 'risk rating' – Red, Amber or Green. A Red or Amber rating indicates a recommendation that the issue should be carefully considered by the Panel. A red rating can also mean that at the time of the independent review team's report there was insufficient information to provide a sufficient assurance for a investment decision.

- 2.3 Approval panels were established for each programme and consist of both public and private members. The panels are commissioned to:

Consider all loan applications and note appraisal report issued by (PwC) following their independent appraisal.

Consider all information provided by the Company as presented to them at the Investments Advisory Board.

Make a recommendation to approve, partial approve or rejection the funding applications, taking into account the Scheme Annual Investment Strategy and the funds available within the geographical allocations.

- 2.4 Each Approval Panel is made up of between 6 and 12 people, with a 50% representing from the private sector. Each Panel has representative from relevant and appropriate professional and business experts.
- 2.5 In addition, the Accountable Body is represented at each Approval Panel by the Programme Manager and/or Deputy Programme Manager.
- 2.6 The Chair for the Expansion East Kent Programme is Paul Carter, Leader of the Council. The Chair for Tiger and Escalate programmes is Mark Dance , portfolio holder for Economic Development. Secretariat services are provided by the Programme Management Team.
- 2.7 Each Approval Panel should meet at least six times per year to consider applications but due to the high volume of applications during 2015 the panels met on a monthly basis.

- 2.8 Equity investments require additional 'Due Diligence' which follows on from the initial Panel recommendation. In all cases, the company must enter into a contract with the Accountable Body which conforms to the requirements of BIS and KCC's (financial rules).
- 2.9 The 'Due Diligence' process normally follows professional advice from those qualified and experienced in the matter. Throughout the due diligence process, the Approval Panel is kept informed and makes a recommendation to the Chair of the meeting and the final decision is taken by Kent County Council.
- 2.10 The RGF Scheme operates as 'Aid in the Form of Risk Capital' within the state aid rules. The rules state the public sector must operate as if it were a market investor. To ensure this, any public investment must be made *pari passu* with a private equity investor (Market Economy Investment Principles - MEIP).
- 2.11 The RGF investments require the applicant to secure a matching investment from a private sector investor (which may be the owners of the company or other equity investment organisations). This model tends to be followed by other smaller scale funds, such as the Scottish Seed Fund.
- 2.12 As part of the loan/equity agreement each company is obliged to provide quarterly monitoring returns. The monitoring of the companies consists of Activities to date, Financial Updates, Identification of risks and Progress on performance against milestones. All companies provide a monitoring report on a quarterly basis to KCC in addition to the shareholder notifications received for all equity investments.

### **3. Recommendation**

- 3.1 Members are recommended to note the contents of this report for assurance.

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**To:** Governance & Audit Committee

**From:** Mike Hill, Cabinet Member, Community Services  
Barbara Cooper, Corporate Director, Growth, Environment & Transport

**Date:**

**Subject:** RIPA report on surveillance, covert human intelligence source and telecommunications data requests carried out by KCC between 1 April 2015 – 31 March 2016

**Classification:** Unrestricted

## FOR ASSURANCE

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**Summary** This report outlines work undertaken by KCC Officers on surveillance, the use of covert human intelligence sources (CHIS) and access to telecommunications data governed by the Regulation of Investigatory Powers Act 2000 (RIPA) during the 2015/16 business year.

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### 1. Background

- 1.1. The document sets out the extent of Kent County Council's use of covert surveillance, covert human intelligence sources and access to telecommunications data. The County Council wishes to be as open and transparent as possible, to keep Members and senior officers informed and to assure the public these powers are used only in a 'lawful, necessary and proportionate' manner.
- 1.2. To achieve transparency and in accordance with the Codes of Practice, an annual report outlining the work carried out is submitted by the Senior Responsible Officer (SRO) to an appropriate Committee. The last report was submitted and approved by the Governance and Audit Committee on 29<sup>th</sup> April 2015.

### 2. What this report covers

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

an 'informant' working on behalf of an officer of the Council. In such cases, due to the potential increased risks, KCC has agreed a memorandum of understanding with Kent Police.

- 2.3 Access to telecommunications data – Local authorities can have limited access to data held by telecommunications providers. Most commonly this will be the details of the person or business who is the registered subscriber to a telephone number. Local authorities are not able to access the content of communications and so cannot “bug” telephones or read text messages.
- 2.4 In each of the above scenarios an officer is required to obtain authorisation from a named senior officer before undertaking the activity. This decision is logged in detail, with the senior officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing an authorisation document.

After authorisation has been granted (if it is) the officer seeking to use the powers applies for judicial approval and attends a Magistrates' Court to secure this.

For surveillance and CHIS the approval document is then held on a central file. There is one central file for KCC, held on behalf of the Corporate Director, Growth, Environment and Transport, which is available for inspection by the Office of the Surveillance Commissioners. For telecommunications authorisations KCC uses the services of the National Anti-Fraud Network (NAFN) to manage applications and keep our records. This was on the advice of the Interception of Communications Commissioner's Office (IoCCO). Any inspection of this type of approval carried out by IoCCO is conducted at the offices of NAFN.

### **3. RIPA work carried out between 1 April 2015 – 31 March 2016**

Total number of authorisations granted for 2015/16 (figure for 2014/15 in brackets):

Surveillance – 3 (2)

Covert human intelligence source (CHIS) – 1 (4)

Access to telecommunications data – 9 (26)

### **4. Purposes for which RIPA powers used**

Fly tipping

2 Surveillance authorisations relate to fly-tipping enforcement.

Sale of counterfeit goods

1 CHIS, 1 surveillance and 3 telecommunications data authorisations were for the purpose of detecting the criminal activity in selling counterfeit goods. This is serious criminal activity which impacts on the local and national economy. Four of the five authorisations relate to a single case which is still

being investigated. The fifth authorisation did not reveal any information of value to the investigation.

### Doorstep frauds

6 telecommunications data requests were authorised to investigate doorstep fraud. The frauds included general building work, roofing work, driveway work and tree surgery.

Of these, two authorisations relate to the same case which has been concluded and resulted in the issuing of two written warnings and the conviction of a third individual who was sentenced to 27 months imprisonment for offences in Kent and in Leicestershire

The remaining four authorisations relate to matters which are still under investigation.

## **5. Results from previous authorisations**

A number of cases for which RIPA techniques were deployed have now completed their progress through the courts. Highlights include:-

- Last year's report included mention of an investigation into a fraud by a letting agent. This matter has now been concluded with the conviction of the perpetrator who received a sentence of 18 months imprisonment, suspended, 200 hours community work and a costs order for £44000. Communications data evidence secured using RIPA was critical in proving the frauds which were linked to the agent misusing the deposits paid by tenants.
- Last year's report also mentioned an investigation into fraudulent activities relating to horse sales. This investigation is complete and the perpetrator was sentenced to 6 months imprisonment and was ordered to pay £6000 in compensation. RIPA evidence was critical in linking all of the sales as the perpetrator used a number of aliases and a variety of contact information.
- RIPA evidence in relation to the enquiries into the sale of illicit tobacco also mentioned in last year's report revealed what we believe to be a national conspiracy. Our file and evidence have been handed over the Her Majesty's Revenue and Customs who are investigating.
- A rogue builder who defrauded residents of Kent and Medway of at least £320,000, with one victim alone losing around £250,000, has been jailed for 6 years due, in part, to evidence generated through use of RIPA relating to the telephone numbers used.
- Communications data evidence secured under RIPA was, again, critical in securing the conviction of a rogue driveway layer who, in a joint prosecution with another authority, was sentenced to 12 months imprisonment.

## **6. Error reporting**

No errors have been reported this year.

## **7. Inspection by Office of the Surveillance Commissioner**

Kent County Council's use of RIPA was audited on 29<sup>th</sup> April 2015 by the Office of the Surveillance Commissioner. In his report, published on 21<sup>st</sup> May, the commissioner confirmed that KCC's "overall standard of compliance is good" and that "Your AOs (*authorising officers*) have considerable experience and knowledge of the legislation and authorisations for directed surveillance or the use of CHIS are sound".

The commissioner recommended that our policy be amended to cover the issues of internet and social media investigation (see below).

## **8. KCC RIPA Policy**

The statutory codes of practice which cover public authority use of RIPA techniques require that the elected members of a local authority should review the authority's use of RIPA and set policy at least once per year.

Appendix 1 to this report is KCC's RIPA policy which has been approved by the Cabinet Member for Community Services, within whose portfolio the Trading Standards Service rests.

Following the inspection by the Office of the Surveillance Commissioner, KCC's RIPA policy has been amended to comply with his recommendation to cover the issues of internet and social media investigations.

## **8. Recommendations**

Members are asked to note for assurance the use of the powers under RIPA during the period and endorse the RIPA policy.

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# Kent County Council

## Policy in relation to the Regulation of Investigatory Powers Act 2000

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## 1. Introduction to Regulation of Investigatory Powers

This policy document is based on the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA) as amended, The Protection of Freedoms Act 2012 and the Home Office's Code of Practices for Directed Surveillance, Covert Human Intelligence Sources (CHIS) and Acquisition and Disclosure of Communications data.

Links to the above documents can be found at:

<http://www.legislation.gov.uk/ukpga/2000/23/contents>

<http://www.legislation.gov.uk/ukpga/2012/9/contents>

<https://www.gov.uk/government/collections/ripa-codes>

- 1.1 Surveillance plays a necessary part in modern life and law enforcement. It is used not just in the targeting of criminals, but also as a means of preventing crime and disorder. The Regulation of Investigatory Powers Act 2000 (RIPA) introduced a system of authorisation and monitoring of activities, to ensure that the rights of the individual were not unnecessarily compromised, in the pursuance of regulatory compliance.
- 1.2 Within the County Council, Trading Standards Officers may need to covertly observe and then visit a shop, business premises, website, social media page or to follow a vehicle as part of their enforcement functions. During a visit or a test purchase situation it may be necessary to covertly video record a transaction, as it takes place. Environmental crime enforcement staff may also need to observe or record at places where illegal tipping or other similar crimes take place. Similarly, KCC's Internal Audit fraud investigators may need to carry out covert surveillance or acquire communications data when they are investigating a crime which they intend to prosecute using the criminal law. They need to use covert surveillance techniques as part of their official duties.
- 1.3 Only those officers designated as "authorising officers" from the specified units or services are permitted to authorise the use of techniques referred to in RIPA. Trading Standards may use Covert Directed Surveillance, Covert Human Intelligence Sources and acquisition of communications data. Environmental Crime enforcement team may use Covert Directed Surveillance and acquisition of communications data. Internal Audit fraud investigators may use Covert Directed Surveillance and acquisition of communications data. The Director of Governance and Law may also be designated as an "authorising officer".
- 1.4 Covert Directed Surveillance is undertaken in relation to a specific investigation or operation, where the person or persons subject to the surveillance are unaware that it is, or may be, taking place. The activity is also likely to result in obtaining private information about a person, whether or not it is specifically for the purpose of the investigation.
- 1.5 Our investigations may also require the use of Covert Human Intelligence Sources (CHIS). These may be under-cover officers, agents or informants. Such sources may be used by the County Council to obtain and pass on information about another person, without their knowledge, as a result of establishing or making use

of an existing relationship. This clearly has implications as regards the invasion of a person's privacy and is an activity which the legislation regulates. A CHIS (other than our own staff) would be used only rarely and in exceptional circumstances.

- 1.6 The RIPA also requires a similar control and authorisation procedure to be in place in respect to the acquisition of telecommunications data. The County Council needs to comply with these requirements when obtaining telephone or internet subscriber, billing and account information.
- 1.7 In addition, the Act put in place an Office of Surveillance Commissioners, and the Interception of Communications Commissioner's Office, whose duties are, respectively, to inspect those public bodies undertaking covert surveillance and the acquisition of communications data, and introduced an Investigatory Powers tribunal to examine complaints that human rights may have been infringed.

## **2. Policy Statement**

- 2.1 Kent County Council will not undertake any activity defined within the Regulation of Investigatory Powers Act 2000 without prior authorisation from a trained, senior officer who is empowered to grant such authorisations.
- 2.2 The Corporate Director of Growth, Environment and Transportation has been appointed as the Senior Responsible Officer (SRO) and, as such, has been given authority to appoint Authorising Officers (for surveillance activities) and Designated Persons (for the purposes of access to communications data) under the Act. The SRO is a member of the corporate leadership team currently called Corporate Management Team.
- 2.3 The Authorising Officer or Designated Person will not authorise the use of surveillance techniques, CHIS or access to communications data unless the authorisation can be shown to be necessary for the purpose of preventing or detecting crime or of preventing disorder.
- 2.4 In addition, the Authorising Officer or Designated Person must believe that the surveillance, use of CHIS or obtaining of communications data is lawful, necessary and proportionate to what it seeks to achieve. In making this judgment, the officer will consider whether the information can be obtained using other methods and whether efforts have been made to reduce the impact of the surveillance or intrusion on other people, who are not the subject of the operation.
- 2.5 Applications for authorisation of surveillance or the use of a CHIS will, except in an emergency where legislation permits, be made in writing on the appropriate form (see Annexes 1 or 2 for example forms).
- 2.6 Intrusive surveillance operations are defined as activities using covert surveillance techniques, on residential premises, or in any private vehicle, which involves the use of a surveillance device, or an individual, in such a vehicle or on such premises. Kent County Council officers are NOT legally entitled to authorise or undertake these types of operations. Operations must not be carried out where legal consultations take place, at the places of business of legal advisors or similar places such as courts, Police stations, prisons or other places of detention.

- 2.7 Public bodies are permitted to record telephone conversations, where one party consents to the recording being made and a directed surveillance authorisation has been granted. On occasions, officers of the Trading Standards Service do need to record telephone conversations, to secure evidence.
- 2.8 It is the policy of this authority to be open and transparent in the way that it works and delivers its services. To that end, a well-publicised KCC Complaints procedure is in place and information on how to make a complaint to the Investigatory Powers Tribunal will be provided on request being made to the SRO or Authorising Officer.

### **3. Internet and social media investigations**

- 3.1 On-line communication has grown and developed significantly over recent years. The use of this type of communication in the commission of crime is a recognised aspect of routine investigations.
- 3.2 Observing an individual's lifestyle as shown in their social media pages or securing subscriber details for e-mail addresses is covered by the same considerations as off-line activity.
- 3.3 Staff using the internet for investigative purposes must not, under any circumstances, use their personal equipment or their personal social media or other accounts.
- 3.4 KCC will provide equipment not linked to its servers for this purpose and will maintain a number of "legends" (false on-line personalities) for use in investigations. A register of all such legends will be maintained by the Trading Standards Service.
- 3.5 Under no circumstances will a legend include personal details of any person known to be a real person, including their photograph, or a name known to be linked to the subject of the covert technique.
- 3.6 A log will be maintained by the Trading Standards Service of the use of each legend. The log will include details of the user, time, date and enforcement purpose for which the legend is used. The log will be updated each time a legend is used.
- 3.7 It is unlikely that the viewing of open source data will amount to obtaining private information and it is therefore unlikely that an authorisation will be required. If in doubt, the investigating officer should consult a RIPA Authorising Manager.
- 3.8 Where data has restricted access (e.g. where access is restricted to "friends" on a social networking site), an application for CHIS and, if appropriate, directed surveillance should be made before any attempt to circumvent those access controls is made.

### **4. Obtaining Authorisation**

- 4.1 The SRO shall designate by name one or more Directors, Heads of Service, Service Managers or equivalent to fulfil the role of Authorising Officer (for the

purposes of Surveillance and CHIS authorisation) and Designated Person (for the purposes of access to communications data). The SRO shall maintain a register of the names of such officers.

- 4.2 Where the CHIS is a juvenile or a vulnerable person, or there is the likelihood that the information acquired by covert surveillance will be Confidential Information (see Glossary), then the authorisation must be from the Head of Paid Service or, in his absence, a Corporate Director nominated by the Head of Paid Service to deputise for him. In the event of such circumstances, the Director of Governance and Law shall also be informed.
- 4.3 Authorisations from the Authorising Officer for directed surveillance or to use a CHIS shall be obtained using the appropriate application form (see annexes 1 and 2 for example forms). Also see Section 12 in relation to CHIS.
- 4.4 Applications for access to communications data shall be made to the Designated Person using the system provided by the National Anti-Fraud Network.
- 4.5 Guidance for completing and processing the application forms is attached (annexes 3 or 4). Guidance for use of the NAFN portal is published and updated on that website.
- 4.6 If authorisation is granted by the Authorising Officer, the applicant, or a suitably experienced officer nominated by the applicant, will make the necessary arrangements to secure judicial approval of the authorisation in compliance with the requirements of the Protection of Freedoms Act 2012. This requires the applicant, or their nominee, to attend a Magistrates' Court and seek an approval order.

## **5. Duration of authorisations**

- 5.1 All records shall be kept for at least 3 years.
- 5.2 A written authorisation (unless renewed) will cease to have effect at the end of the following periods from when it took effect:
  - a) Directed Surveillance - 3 months
  - b) Conduct and use of CHIS - 12 months

## **6. Reviews**

- 6.1 Regular review of authorisations and notices shall be undertaken by the relevant Authorising Officer to assess the need for the surveillance or notice to continue. The results of the review shall be recorded on the central record of authorisations (see annexes 1 or 2 for review forms). Where surveillance provides access to Confidential Information or involves collateral intrusion, particular attention shall be given to the review for the need for surveillance in such circumstances.
- 6.2 In each case, the Authorising Officer shall determine how often a review is to take place, and this should be as frequently as is considered necessary and practicable.

## **7. Renewals**

7.1 If, at any time, an authorisation or notice ceases to have effect and the Authorising Officer considers it necessary for the authorisation or notice to continue for the purposes for which it was given, s/he may renew it, in writing, for a further period of:

- three months – directed surveillance
- twelve months – use of a CHIS
- one month – access to communications data
- (see annexes 1 or 2 for examples of renewal forms)

7.2 A renewal takes effect at the time at which the authorisation would have ceased to have effect but for the renewal. An application for renewal should not be made until shortly before the authorisation period is drawing to an end. Any person who would be entitled to grant a new authorisation can renew an authorisation. Authorisations may be renewed more than once provided they continue to meet the criteria for authorisation.

## **8. Cancellations**

8.1 The Authorising Officer who granted or last renewed the authorisation or notice must cancel it if s/he is satisfied that the Directed Surveillance or the use or conduct of the Covert Human Intelligence Source no longer meets the criteria for which it was authorised (see annexes 1 or 2 for examples of cancellation forms). When the Authorising Officer is no longer available, this duty will fall on the person who has taken over the role of Authorising Officer or the person who is acting as Authorising Officer.

8.2 As soon as the decision is taken that Directed Surveillance should be discontinued or the use or conduct of the CHIS no longer meets the criteria for which it was authorised, the instruction must be given to those involved to stop all surveillance of the subject or use of the CHIS. The authorisation does not 'expire' when the activity has been carried out or is deemed no longer necessary. It must be either cancelled or renewed. The date and time when such an instruction was given should be recorded in the central register of authorisations and the notification of cancellation where relevant.

## **9. Central Register and Oversight by Senior Responsible Officer**

9.1 A copy of any authorisation, any renewal or cancellation (together with any supporting information relevant to such authorisation or cancellation) shall be forwarded to the SRO within 5 working days of the date of the application, authorisation, notice, renewal or cancellation.

9.2 The SRO shall:

- (a) keep a register of the documents referred to in paragraph 8.1 above;
- (b) monitor the quality of the documents and information forwarded;
- (c) monitor the integrity of the process in place within the Council for the management of CHIS;
- (d) monitor compliance with Part II of the RIPA and with the Codes;

- (e) oversee the reporting of errors to the relevant Oversight Commissioner and the identification of both the cause(s) of errors and the implementation of processes to minimise repetition of errors;
- (f) engage with the OSC inspectors when they conduct their inspections, where applicable; and
- (g) where necessary, oversee the implementation of post-inspection action plans approved by the relevant Oversight Commissioner.

## **10. Training**

- 10.1 The Authorising Officers and Designated Persons shall be provided with training to ensure awareness of the legislative framework.

## **11. Planned and Directed Use of KCC CCTV Systems**

- 11.1 KCC's CCTV systems shall not be used for Directed Surveillance, without the SRO or other senior legal officer confirming to the relevant operational staff that a valid authorisation is in place.

## **12. Special Arrangements**

- 12.1 The use of a CHIS can present significant risk to the security and welfare of the person. Each authorisation will have a specific documented risk assessment and the CHIS (and all members of any support team) will be briefed on the details of the assessment. Kent County Council has a Memorandum of Understanding with Kent Police for circumstances where the CHIS are not an employee or other agent working for or on behalf of the authority. In other circumstances such as a member of public, "whistle-blower" or informant then Kent Police will handle the operation of the CHIS. Kent Police will ensure the compliance with the Regulations, codes of practice and all other risks such as the security and welfare of the CHIS (and associated persons). Any necessary and relevant information will be provided following best practise as to not risk identifying CHIS unless this is appropriate and approved by Kent Police. In such cases, Kent Police are responsible for all records and monitoring processes.

## **13. Oversight**

- 13.1 The SRO shall ensure that this policy is reviewed on an annual basis by presenting a report of activity to the Governance and Audit Committee (or similar Committee). There shall also be brief details of all activity under this policy provided to the SRO and shared with the appropriate Cabinet Member on a quarterly basis.
- 13.2 Every two years the Director of Governance and Law will review the policy, and also contact a senior manager in all other units and services within Kent County Council to inform of any changes or alterations. The communication will also seek to highlight the details of the restrictions imposed by RIPA and Human Rights legislation. Should any unit or service (other than those permitted by this policy) consider that any actions it may have taken (or are considering taking) might infringe this policy, they must be raised with the Director of Governance and Law as soon as practicable.

## Glossary

**"Confidential information"** consists of matters subject to legal privilege, confidential personal information, or confidential journalistic material.

**"Directed Surveillance"** is defined in section 26 (2) of RIPA as surveillance which is covert, but not intrusive (i.e. takes place on residential premises or in any private vehicle), and undertaken:

- (a) for the purpose of specific investigation or specific operation;
- (b) in such a manner is likely to result in the obtaining of private information about a person (whether or not one specifically identified for the purposes of the investigation or operation); and
- (c) otherwise than by way of an immediate response to events or circumstances the nature of which is such that it would not be reasonably practicable for an authorisation under Part II of RIPA to be sought for the carrying out of the surveillance.

**"A person is a Covert Human Intelligence Source"** if:

- he establishes or maintains a personal or other relationship with a person for the covert purpose of facilitating the doing of anything within paragraph (b) or (c);
- he covertly uses such a relationship to obtain information or to provide access to any information to another person; or
- he covertly discloses information obtained by the use of such a relationship, or as a consequence of the existence of such a relationship.

(See section 26 (8) of RIPA)

<p>"Communications Data is:-</p> <p>(a) any traffic data comprised in or attached to a communication (whether by the sender or otherwise) for the purposes of any postal service or telecommunication system by means of which it is being or may be transmitted; (NOT AVAILABLE TO LOCAL AUTHORITIES)</p>
<p>(b) any information which includes none of the contents of a communication (apart from any information falling within paragraph (a)) and is about the use made by any person-</p> <p>(i) of any postal service or telecommunications service; or</p> <p>(ii) in connection with the provision to or use by any person of any telecommunications service, of any part of a telecommunication system;</p>
<p>(c) any information not falling within paragraph (a) or (b) that is held or obtained, in relation to persons to whom he provides the service, by a person providing a postal service or telecommunications service.</p>



## **Annex 1 – Surveillance forms**

Application for Authorisation to Carry Out Directed Surveillance

Review of Directed Surveillance Authorisation

Cancellation of a Directed Surveillance Authorisation

Application of Renewal of a Directed Surveillance Authorisation

(Forms available at <http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/> )

## **Annex 2 – Covert Human Intelligence forms**

Application for Authorisation of the Use or Conduct of a Covert Human Intelligence Source

Review of a Covert Human Intelligence Source Authorisation

Cancellation of an Authorisation for the use of or Conduct of a Covert Human Intelligence Source

Application for renewal of a Covert Human Intelligence Source Authorisation

(Forms available at <http://www.homeoffice.gov.uk/counter-terrorism/regulation-investigatory-powers/ripa-forms/> )

## **Annex 3 - Guidance on completing surveillance forms**

### **Details of Applicant**

Details of requesting officer's work address and contact details should be entered.

### **Details of Application**

**1. Give rank or position of authorising officer in accordance with the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2003; No. 3171**

Fill in details of Authorising Officer (see paras 3.1 and 3.2 of Policy)

**2. Purpose of the specific operation or investigation**

Outline what the operation is about and what is hoped to be achieved by the investigation. Indicate whether other methods have already been used to obtain this information. Give sufficient details so that the Authorising Officer has enough information to give the Authority e.g. "Surveillance at Oakwood House and Mr. X".

**3. Describe in detail the surveillance operation to be authorised and expected duration, including any premises, vehicles or equipment (e.g. camera, binoculars, recorder) that may be used**

Give as much detail as possible of the action to be taken including which other officers may be employed in the surveillance and their roles. If appropriate append any investigation plan to the application and a map of the location at which the surveillance is to be carried out.

**4. The identities, where known, of those to be subject of the directed surveillance**

**5. Explain the information that it is desired to obtain as a result of the directed surveillance**

This information should only be obtained if it furthers the investigation or informs any future actions

**6. Identify on which grounds the directed surveillance is necessary under section 28(3) of RIPA**

The ONLY grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder.

This can be used in the context of local authority prosecutions, or where an employee is suspected of committing a criminal offence e.g. fraud.

**7. Explain why this directed surveillance is necessary on the grounds you have identified (code chapter 3)**

Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance.

**8. Supply details of any potential collateral intrusion and why the intrusion is unavoidable (code chapter 3) Describe precautions you will take to minimise collateral intrusion**

Who else will be affected by the surveillance, what steps have been done to avoid this, and why it is unavoidable?

**9. Explain why the directed surveillance is proportionate to what it seeks to achieve. How intrusive might it be on the subject of surveillance or on others? And why is this intrusion outweighed by the need for surveillance in operational terms or can the evidence be obtained by any other means? [Code chapter 3]**

If the Directed Surveillance is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

**10. Confidential information (Code chapter 4)**

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

**12. Authorising Officer's Statement**

**13. Authorising Officer's comments**

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary.

## **Annex 4 - Guidance on completing Covert Human Intelligence forms**

### **Details of Application**

#### **1. Authority Required**

Fill in details of Authorising Officer (see paras 3.1 and 3.2 of the Policy)

Where a vulnerable individual or juvenile source is to be used, the authorisation **MUST** be given by the Head of Paid Service or, in their absence, the Corporate Director deputising for them.

#### **2. Describe the purpose of the specific operation or investigation**

Sufficient details so that the Authorising Officer has enough information to give Authority. Outline what the operation is about and the other methods used already to obtain this information.

#### **3. Describe in detail the purpose for which the source will be tasked or used**

Give as much detail as possible as to what the use of the source is intended to achieve.

#### **4. Describe in detail the proposed covert conduct of the source or how the source is to be used**

Describe in detail the role of the source and the circumstances in which the source will be used

#### **5. Identify on which grounds the conduct or the use of the source is necessary under Section 29(3) of RIPA**

The **ONLY** grounds for carrying out Directed Surveillance activity is for the purpose of preventing or detecting crime or of preventing disorder

#### **6. Explain why this conduct or use of the source is necessary on the grounds you have identified (Code chapter 3)**

Outline what other methods may have been attempted in an effort to obtain the information and why it is now necessary to use surveillance for the investigation.

#### **7. Supply details of any potential collateral intrusion and why the intrusion is unavoidable (Code chapter 3)**

Who else will be affected, what steps have been done to avoid this, and why it is unavoidable?

#### **8. Are there any particular sensitivities in the local community where the source is to be used? Are similar activities being undertaken by other public authorities that could impact on the deployment of the source? (see Code chapter 3)**

Ensure that other authorities such as the police or other council departments are not conducting a parallel investigation or other activity which might be disrupted.

**9. Provide an assessment of the risk to the source in carrying out the proposed conduct (see Code chapter 6)**

A risk assessment will have to be carried out to establish the risks to that particular source, taking into account their strengths and weaknesses. The person who has day to day responsibility for the source and their security (the 'Handler') and the person responsible for general oversight of the use made of the source (the 'Controller') should be involved in the risk assessment.

**10. Explain why this conduct or use of the source is proportionate to what it seeks to achieve. How intrusive might it be on the subject(s) of surveillance or on others? How is this intrusion outweighed by the need for a source in operational terms, and could the evidence be obtained by any other means? [Code chapter 3]**

If the use of a Covert Human Intelligence Source is necessary, is it proportionate to what is sought to be achieved by carrying it out? This involves balancing the intrusiveness of the activity on the target and others who may be affected by it against the need for the activity in operational terms. Reasons should be given why what is sought justifies the potential intrusion on the individual's personal life and his privacy. The activity will not be proportionate if it is excessive in the circumstances of the case or if the information which is sought could reasonably be obtained by other less intrusive means.

**11. Confidential information (Code chapter 4). Indicate the likelihood of acquiring any confidential information**

Will information of a confidential nature be obtained (i.e. communications subject to legal privilege, or communications involving confidential personal information and confidential journalistic material) if so the appropriate level of authorisation must be obtained (see para 3.2 of the Policy).

**13. Authorising Officer's comments**

Must be completed outlining why it is proportionate and why he/she is satisfied that it is necessary to use the source and that a proper risk assessment has been carried out.

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 – 27 April 2016

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

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Summary: To report a summary of Treasury Management activity

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## **FOR ASSURANCE**

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### **INTRODUCTION**

1. This report covers Treasury Management activity for the 9 months to 31 December 2015 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 December report is attached in Appendix 1.

### **INVESTMENT ACTIVITY**

6. The Council's average investment balances to date have amounted to £390m, representing income received in advance of expenditure plus balances and reserves held. Over the 3 months to end March 2016 these balances fell to £302m, lower than expected.
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, the Council's aim has been 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 9 months to the end of December 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 December some 35% 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. For the 9 months to end December the interest rate earned on the invested cash was 0.72% 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) have reviewed their ratings during the 9 months reflecting 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 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.
15. In September, Volkswagen was found to have been cheating emissions tests over several years in many of their diesel vehicles. As issues surrounding this scandal continued there were credit rating downgrades across the Volkswagen group by all of the ratings agencies in quarter 3. The £1.75m corporate bond purchased in March matured in October at par.
16. In March 2016 the ratings of Standard Chartered Bank were downgraded due to concerns around the profitability and quality of the bank's assets. Taking account of advice from Arlingclose, the bank was suspended from the Council's counterparty list.



## **STATEMENT OF DEPOSITS**

17. A statement of deposits as at 26 February 2016 is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

## **BORROWING**

18. At 31 December 2015 the Authority held £994m of loans, a fall of £6m from the level at 31 March 2015 as the result of the value of loan maturities exceeding the new £25m loan taken in April 2015.
19. 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.
20. In April a decision was 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%.
21. As a result of taking the new loan the average interest rate payable on the Council's debt portfolio reduced slightly from 5.51% to 5.387%.
22. KCC repaid £16m of maturing PWLB loans in the final quarter of 2015-16 and did not undertake further borrowing.
23. 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.
24. 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**

25. In 2015-16 KCC has received 2 further dividends from Icelandic banks. Heritable paid £0.741m in August 2015, bringing the Heritable recovery to 98%. The remaining dividend of 2p in the pound, circa £360k, will be paid when a building defects issue is resolved. Landsbanki paid a final dividend of £2.9m in January 2016. The total recovered to date amounts to £51.3m.

## **RECOMMENDATION**

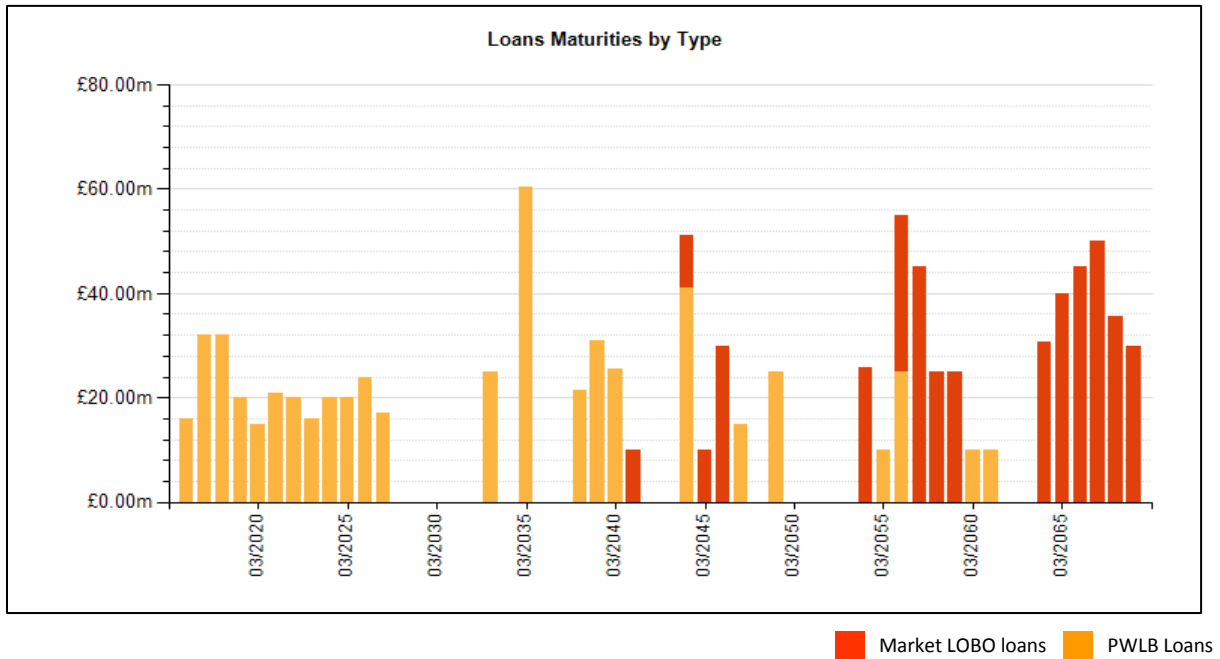
26. Members are asked to note this report for assurance.

**Alison Mings**  
**Treasury and Investments Manager**  
**Ext: 03000 416488**

## Treasury Management Report for the month of December 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 December was £994.08m. £16m of PWLB loans are due for repayment before the end of March 2016.

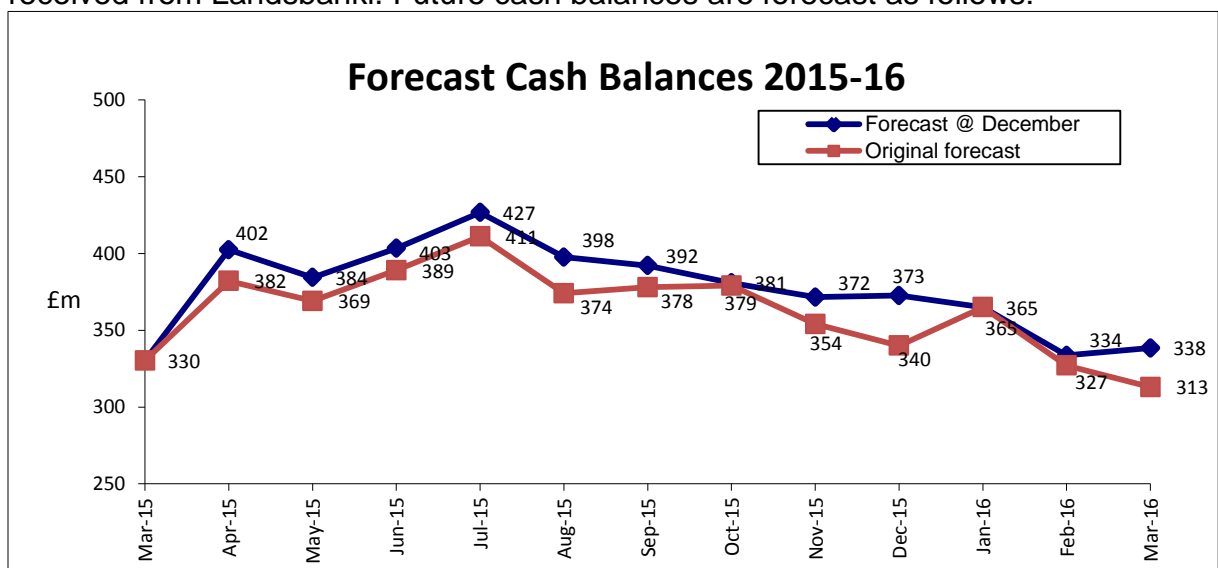


Total external debt managed by KCC includes £38.82m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of the Further Education Funding Council (£1.76m) and Magistrates Courts (£0.556m).

### 2. Investments

#### 2.1 Cash Balances

During December the total value of cash under management rose by £1.9m to £372.6m, £33m above the original forecast. On 14 January a dividend of £2.9m was received from Landsbanki. Future cash balances are forecast as follows:



## 2.2 Type of investment at month end

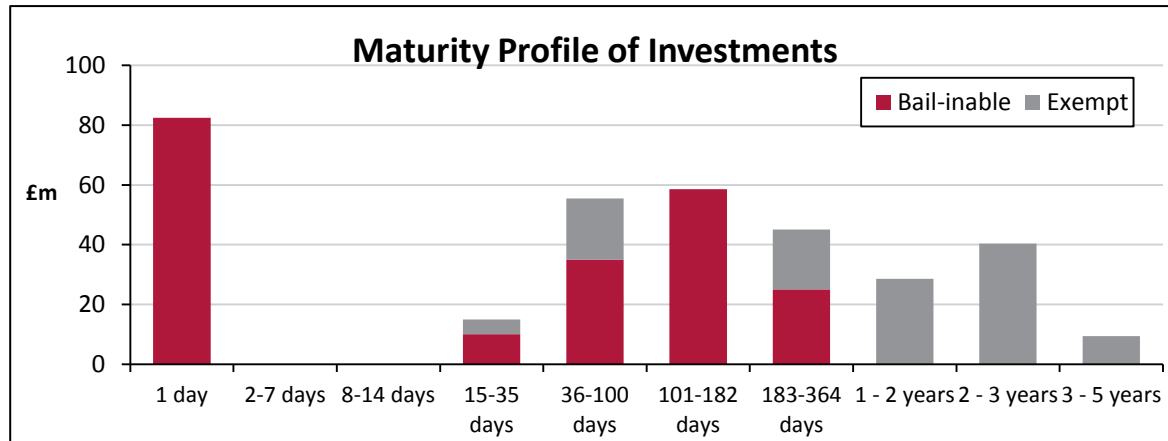
Type of Investment	Total	
	£m	%
Call Account	23.00	6
Money Market Fund	59.49	15
Notice Account	25.00	7
Certificate of Deposit	55.00	15
Fixed Deposit	74.00	20
Covered Bond	98.48	27
ISK held in Escrow	3.28	1
Icelandic Recoveries outstanding	3.34	1
<b>Internally managed cash</b>	<b>341.59</b>	<b>92</b>
External Investments	26.21	7
Equity	2.14	1
<b>Total</b>	<b>369.94</b>	<b>100</b>

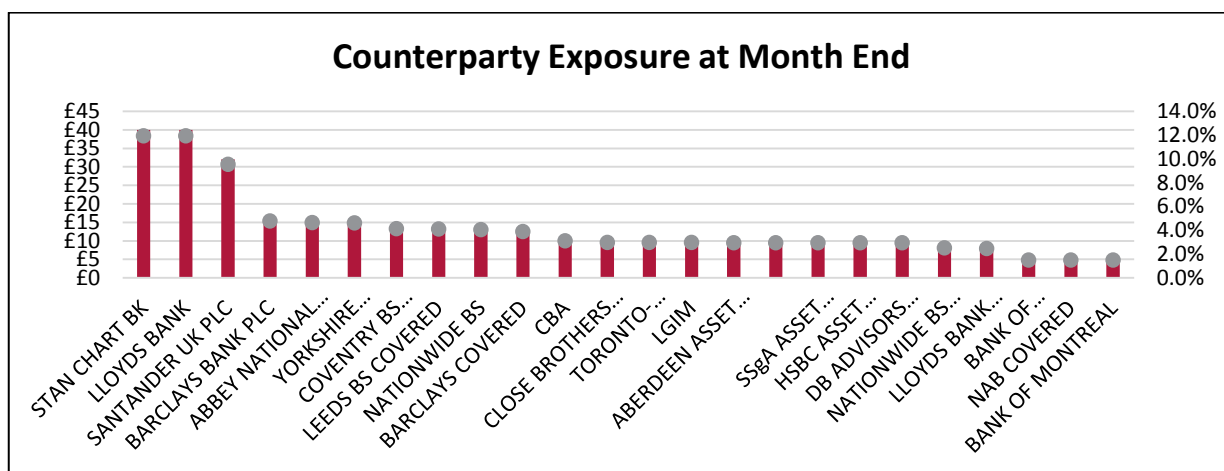
## 2.3 Internally managed cash

### 2.3.1 Average return on new investments

The rate of return on investments held at month end is 0.77% vs the target return 7 day LIBID of 0.36%.

### 2.3.2 Investment maturity profile and counterparty exposure.





### 2.3.3 Credit Score matrix

	Credit Rating	Credit Risk Score
<b>Value Weighted Average</b>	AA-	3.67
<b>Time Weighted Average</b>	AA+	1.93

### 3. External Investments

	Book cost £000	Market Value at 31 December 2015 £000	12 months return to 31 December 2015
<b>CCLA</b>	20,000	21,148	7.00%
<b>Pyrford</b>	5,000	5,067	2.16%

### 4. Financing Items

An underspend of £625k is forecast reflecting increased interest on cash balances as a result of higher cash balances, investing for longer durations and increased dividends.

**Alison Mings, 20 January 2016**

## Investments as at 26 February 2016

## 1. Internally Managed Investments

## 1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Same Day Call Deposit	Barclays Bank	£1,300,000	n/a	0.35%
Same Day Call Deposit	Barclays FIBCA	£11,000,000	n/a	0.50%
Certificate of Deposit	Barclays Bank	£5,000,000	05/05/2016	0.5375%
	<b>Total Barclays</b>	<b>£17,300,000</b>		
Fixed Deposit	Close Brothers	£10,000,000	21/06/2016	0.80%
	<b>Total Close Brothers</b>	<b>£10,000,000</b>		
Fixed Deposit	Lloyds Bank	£5,000,000	19/08/2016	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	30/09/2016	1.05%
Fixed Deposit	Lloyds Bank	£5,000,000	24/05/2016	0.80%
Fixed Deposit	Lloyds Bank	£5,000,000	22/07/2016	0.85%
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	05/09/2016	1.00%
	<b>Total Lloyds Group</b>	<b>£35,000,000</b>		
Call Deposits	Santander UK	£2,150,000	n/a	0.40%
31 Day Call Notice Account	Santander UK	£5,000,000	n/a	0.65%
60 Day Call Notice Account	Santander UK	£5,000,000	n/a	0.75%
95 Day Call Notice Account	Santander UK	£5,000,000	n/a	0.90%
120 Day Call Notice Account	Santander UK	£5,000,000	n/a	1.05%
180 Day Call Notice Account	Santander UK	£5,000,000	n/a	1.15%
	<b>Total Santander</b>	<b>£27,150,000</b>		
Certificate of Deposit	Standard Chartered Bank	£10,000,000	01/04/2016	0.73%
Certificate of Deposit	Standard Chartered Bank	£10,000,000	07/04/2016	0.73%
Certificate of Deposit	Standard Chartered Bank	£10,000,000	22/04/2016	0.73%
Certificate of Deposit	Standard Chartered Bank	£5,000,000	15/07/2016	0.78%
Certificate of Deposit	Standard Chartered Bank	£5,000,000	06/05/2016	0.74%
	<b>Total Standard Chartered Bank</b>	<b>£40,000,000</b>		
<b>Total UK Bank Deposits</b>		<b>£129,450,000</b>		
Fixed Deposit	Nationwide Building Society	£3,600,000	19/04/2016	0.66%
Fixed Deposit	Nationwide Building Society	£10,000,000	22/04/2016	0.68%
	<b>Total UK Building Society Deposits</b>	<b>£13,600,000</b>		
Certificate of Deposit	Bank of Montreal	£5,000,000	24/10/2016	0.77%
Certificate of Deposit	Toronto Dominion Bank	£5,000,000	07/11/2016	0.74%
Certificate of Deposit	Toronto Dominion Bank	£5,000,000	01/12/2016	0.95%
	<b>Total Canadian Bank Deposits</b>	<b>£15,000,000</b>		

Same Day Call Deposit	Svenska Handelsbanken	£400,000	n/a	0.40%
	<b>Total Swedish Bank Deposits</b>	<b>£400,000</b>		
Money Market Fund	Deutsche Managed Sterling Fund	£95,284	n/a	0.43 (variable)
Money Market Fund	HSBC Global Liquidity Fund	£98,774	n/a	0.46 (variable)
Money Market Fund	Insight Sterling Liquidity Fund	£7,627	n/a	0.46 (variable)
Money Market Fund	LGIM Liquidity Fund	£9,958,875	n/a	0.48 (variable)
Money Market Fund	SSgA GBP Liquidity Fund	£56,615	n/a	0.43 (variable)
Money Market Fund	Aberdeen Sterling Liquidity Fund	£50,203	n/a	0.42 (variable)
	<b>Total Money Market Funds</b>	<b>£10,267,378</b>		

Instrument Type	Principal Amount
Total Icelandic Recoveries outstanding	£506,554
Total ISK held in Escrow (est GBP)	£3,278,427
<b>Net Icelandic Recoveries outstanding</b>	<b>£3,784,981</b>

## 1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Net Yield	Maturity Date
Fixed Rate Covered Bond	Bank of Scotland	£2,070,756	1.293%	08/11/2016
Fixed Rate Covered Bond	Bank of Scotland	£2,980,464	1.309%	08/11/2016
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
Fixed Rate Covered Bond	Leeds Building Society	£2,128,008	2.016%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£1,601,727	1.187%	17/12/2018
Fixed Rate Covered Bond	Yorkshire Building Society	£2,160,067	1.981%	12/04/2018
Fixed Rate Covered Bond	Yorkshire Building Society	£3,279,738	1.550%	12/04/2018
Floating Rate Covered Bond	Abbey National Treasury	£5,758,592	0.820%	20/01/2017
Floating Rate Covered Bond	Abbey National Treasury	£3,004,403	0.714%	20/01/2017

Floating Rate Covered Bond	Abbey National Treasury	£2,443,008	0.776%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£1,380,318	0.716%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£3,004,068	0.787%	29/05/2018
Floating Rate Covered Bond	Barclays Bank	£5,005,363	0.693%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£3,003,427	0.685%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£5,003,052	0.721%	12/02/2018
Floating Rate Covered Bond	Coventry Building Society	£3,008,823	0.877%	17/03/2020
Floating Rate Covered Bond	Leeds Building Society	£2,502,475	0.784%	09/02/2018
Floating Rate Covered Bond	Leeds Building Society	£2,502,514	0.784%	09/02/2018
Floating Rate Covered Bond	Leeds Building Society	£5,000,000	0.967%	01/10/2019
Floating Rate Covered Bond	Lloyds	£3,004,177	0.806%	14/01/2017
Floating Rate Covered Bond	Lloyds	£3,902,224	0.721%	19/01/2018
Floating Rate Covered Bond	Lloyds	£1,404,815	0.758%	18/07/2019
Floating Rate Covered Bond	National Australia Bank	£5,004,480	0.647%	12/08/2016
Floating Rate Covered Bond	Nationwide Building Society	£1,899,996	0.769%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£1,000,738	0.719%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£2,101,860	0.709%	17/07/2017
Floating Rate Covered	Nationwide Building Society	£3,430,540	0.740%	27/04/2018
Floating Rate Covered Bond	Yorkshire Building Society	£3,009,850	0.911%	23/03/2016
Floating Rate Covered Bond	Yorkshire Building Society	£5,017,978	0.911%	23/03/2016
Floating Rate Covered Bond	Yorkshire Building Society	£2,007,450	0.911%	23/03/2016
	<b>Total Bonds</b>	<b>£98,454,974</b>		

<b>Total Internally managed investments</b>	<b>£270,957,333</b>
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## 2. Externally Managed Investments

<b>Investment Fund / Equity</b>	<b>Book cost</b>
CCLA	£25,000,000
Pyrford	£5,000,000
Kent PFI (Holdings) Ltd	£2,135,741
<b>Total External Investments</b>	<b>£32,135,741</b>

## 3. Total Investments

<b>Total Investments</b>	<b>£303,093,074</b>
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By: Deputy Leader and Cabinet Member for Finance & Procurement – John Simmonds  
Corporate Director of Finance & Procurement – Andy Wood

To: Governance and Audit Committee – 27 April 2016

Subject: Changes in Closedown process and Revised Accounting Policies

Classification: Unrestricted

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Summary: This report asks Members to note the changes that have been made to the closedown process and approve the revised accounting policies.

## FOR INFORMATION AND DECISION

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1. The Accounts and Audit Regulations 2015 set out the statutory requirements that local authorities must adhere to.

The key changes from the previous regulations are:

- Draft accounts completed no later than 31 May;
- Annual accounts (including the Annual Governance Statement) must be published with the audit opinion and certificate no later than 31 July;
- The public notice period is 30 working days and must include the first 10 working days of June.

There is a transitional period to allow authorities to achieve the new deadlines by 2017-18. The transition dates are:

- Draft accounts completed no later than 30 June;
- Annual accounts (including the Annual Governance Statement) must be published with the audit opinion and certificate no later than 30 September;
- The public notice period is 30 working days and must include the first 10 working days of July.

- 1.1 The draft accounts for 2015-16 will be produced by the 3 June, which is one week earlier than the 2014-15 accounts; and will be available for public inspection from 6 June.

- 1.2 To achieve the earlier date the following changes to our processes have been put in place:

- Accounts Payable and Accounts Receivable will no longer process invoices in period 13. The consequence of this change may lead to more manual debtors and creditors.

- The de minimus value for debtors and creditors has been increased from £500 to £1,000 for revenue and from £500 to £10,000 for capital.
- Purchase Cards and Imprest Accounts – the March transactions which have previously been processed in Period 13 will now be processed in April 2016. The impact of this change is that there will be 11 months' worth of transactions in 2015-16 but from 2016-17 onwards there will be 12 months. The average monthly amount for purchase cards and imprest accounts is £167k and £124k respectively.
- Rental income and payments which have been processed in 2015-16 and relate to the first quarter of 2016-17 will not be adjusted for. The impact of this change is that there will be five quarters in 2015-16 but from 2016-17 onwards there will be four quarters. The estimated value of the income and payments for the quarter is £141k and £225k respectively, an estimated net amount of £84k.
- Reduction in the level of review and checking of debtor and creditor requests.

The sum total of these changes are not material in terms of the accounts and the outturn forecast and have been discussed and agreed with our external auditors.

2. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".
3. This year, amendments and revisions are needed in respect of the adoption of IFRS 13 – Fair Value and Joint Operations.

i) IFRS 13 – Fair Value

The adoption of this standard requires a new accounting policy for fair value and amendments to the accounting policies for Property, Plant and Equipment and Financial Instruments. This is a new requirement for the 2015-16 statement of accounts and therefore new accounting policies have been drafted, derived from the Code of Practice Guidance Notes prepared by the Chartered Institute of Public Finance Accountants (CIPFA).

For the full accounting policy see Appendix 1.

ii) Joint Operations

IFRS 11 – Joint Arrangements was adopted in 2014-15. The accounting policy is amended to provide clarification on the accounting for joint operations that the Council has an interest in. The amendment is derived from the Code of Practice Guidance Notes prepared by the CIPFA.

For the full accounting policy see Appendix 2.

#### **4. Recommendation**

Members are asked to:

- 4.1 Note the changes made to the 2015-16 closedown process.
- 4.2 Members are asked to approve the additions and amendments to the accounting policies as presented.

**Cath Head**  
**Head of Financial Management**  
**Ext: 416934**

**Emma Feakins**  
**Chief Accountant**  
**Ext: 416082**

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### **Fair Value Measurement**

The council measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

### **Note 15. Property, Plant and Equipment**

#### **Accounting Policy**

The change affects the measurement section to the policy which has been changed as follows:

## Measurement

Assets are initially measured at cost, comprising:

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

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- [surplus assets – fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date](#)
- all other assets – [fair-current](#) value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

## Note 37. Financial Instruments

### Accounting Policy

[The change affects the Available-for-Sale Assets part of the policy as follows:](#)



### **Available-for-Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
  
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. =
- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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## Joint Operations

### **Accounting Policy**

~~Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation. The proportion of transactions and balances of Jointly Controlled Operations that relate to the Council are included in the Council's single entity accounts.~~

Joint Operations are arrangements where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities are undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- its assets, including its share of any assets held jointly
- its liabilities, including its share of any liabilities incurred jointly
- its revenue from the sales of its share of the output arising from the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its share of the revenue from the sale of the output by the joint operation
- its expenses, including its share of any expenses incurred jointly.

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

To: Governance and Audit Committee – 27 April 2016

Subject: Updated Financial Regulations

Classification: Unrestricted

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Summary: This report asks Members to note the updated financial regulations, prior to approval by County Council.

## **FOR ASSURANCE**

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### **1. Introduction**

- 1.1 The Financial Regulations have been reviewed and updated. Whilst there has been no major re-write or change to the format of the regulations, amendments have been made to reflect changes in structures/working practices, to ensure our regulations reflect current best practice and strengthen areas where there were known gaps.
- 1.2. In line with the terms of reference of this Committee, the revised regulations need to be agreed before being submitted to County Council for approval as an amendment to the Constitution.
- 1.3 This review has been undertaken as part of a programme of work looking not only at the Financial Regulations but also a Delegation Matrix and Financial Procedures.

### **2. Main Amendments**

- 2.1 The process for conducting this review included:
  - Looking at the Constitution to ensure the regulations comply with the Constitution;
  - Addressing concerns/gaps raised by finance staff;
  - Ensuring other relevant procedures/publications are still relevant and available on Knet.
- 2.2 The amendments made to the regulations can be seen in detail at Appendix A, as they are presented showing all tracked changes.
- 2.3 The main areas of change to highlight are:
  - The regulation relating to the Corporate Director of Finance and Procurement having statutory duties to the financial administration and stewardship of the authority. Amendment to the Accounts and Audit

Regulations and Local Government Pension Scheme Regulations. (Ref. Section 2.9 – v and vi)

- New regulation relating to the Corporate Director of Finance and Procurement having authorisation to make technical changes to the version of the budget approved at County Council. (Ref. Section A.13)
- Regulation relating to Accounts and Audit Requirements – amended to reflect 2015 regulations. (Ref. Section C.7)
- The regulation relating to external audit requirements has been updated to reflect extended contract date. (Ref. Section C.8)
- New regulation relating to card payment arrangements and that the Corporate Director of Finance and Procurement is responsible for ensuring compliance with the Payment Card Industry Data Security Standard. (Ref. Section C.33)
- New regulation relating to the Corporate Directors being responsible for maintaining secure card payment arrangements. (Ref. Section C.34)
- The regulation relating to the types of debt that the Corporate Director of Finance and Procurement agrees to write off has been expanded to include – debt statute barred under the Limitations Act 1990 and the Care Act 2014 and debt remitted by a magistrate. (Ref. Section D.6)
- New regulation relating to deviation from the financial limits set in the delegated authority matrix. (Ref. Section D.11)
- The contract extension signature section in the delegated authority matrix has been amended along with some minor word changes. (Ref. Appendix 1)

### 3. Recommendation

Members are asked to comment on the updated Financial Regulations, including the delegated authority matrix, that are to be put forward to County Council for approval.

**Emma Feakins**  
**Chief Accountant**  
**Ext: 416082**

Scheme of Delegation - Approval Limits

Finance Approval Process

Stage or Transaction Approval	Notes	Members		Officers				Strategic Sourcing & Procurement Team (SSP)				
		The Leader or Cabinet	Cabinet Member	CMT Director	Service Director	Service Head	Budget Manager	Head of Procurement	Category Manager	Procurement Manager	Procurement Officer	PS2P Buyer
<b>Revenue Virement Limits</b>												
Within Portfolio	1	Above £1m *	From £200k up to (but not including) £1m **	From £200k up to (but not including) £1m **								
Within Portfolio	2		Less than £200k	Less than £200k								
Between Portfolios	1	Above £1m *	From £200k up to (but not including) £1m **	From £200k up to (but not including) £1m **								
Between Portfolios	2		Less than £200k	Less than £200k								
<b>Capital Virement Limits</b>												
Within or across Portfolios	1	Above £1m *	From £200k up to (but not including) £1m **	From £200k up to (but not including) £1m **								
Within or across Portfolios	3		From £50k up to (but not including) £200k	From £50k up to (but not including) £200k								
Within or across Portfolios				Less than £50k								
Writing off of obsolete stock	4			Up to £10k								
Ex Gratia Payments	5		More than £6k	Up to £6k								
Writing off irrecoverable debts	6			Up to £10k								

Procurement & Invoice Approval Process

Stage or Transaction Approval	Notes	Members		Officers				Strategic Sourcing & Procurement Team (SSP)				
		The Leader or Cabinet	Cabinet Member	CMT Director	Service Director	Service Head	Budget Manager	Head of Procurement	Category Manager	Procurement Manager	Procurement Officer	PS2P Buyer
Contract Award Recommendation acceptance	7/16/17	Unlimited*	Unlimited*	Up to £1m*	Up to £500k except where Property Management Protocol expressly differs	Up to £250k	Up to £50k					
Contract/Framework Signature	8			Up to £1m and over £1m with Cabinet or Cabinet Member Decision to award and express authorisation of the Monitoring Officer to sign or seal*	Up to £500k and over £1m with Cabinet or Cabinet Member Decision to award and express authorisation of the Monitoring Officer to sign or seal*			Up to £1m and over £1m with Cabinet or Cabinet Member Decision to award and express authorisation of the Monitoring Officer to sign or seal*	Up to £250k	Up to £100k	Up to £50k	
Requisition (Budget expenditure) Approval i-Procurement	9/10/17			Unlimited where previously approved as designated signatory and where relevant authority is in place	Up to £1m*	Up to £500k	Up to £50k					
Purchase Order Approval	11							Unlimited when correct political or previously delegated authority is in place and no contract is required*	Up to £250k	Up to £100k	Up to £50k	Up to £8k
Variation Approval	14	Unlimited*	Unlimited*	Up to £1m*	Up to £500k	Up to £250k	Up to £50k					
Variation Signature				Unlimited with Cabinet or Cabinet Member Decision to award variation and express authorisation of the Monitoring Officer to sign or seal*	Unlimited with Cabinet or Cabinet Member Decision to award variation and express authorisation of the Monitoring Officer to sign or seal*							

Procurement & Invoice Approval Process

Stage or Transaction Approval	Notes	Members		Officers				Strategic Sourcing & Procurement Team (SSP)				
		The Leader or Cabinet	Cabinet Member	CMT Director	Service Director	Service Head	Budget Manager	Head of Procurement	Category Manager	Procurement Manager	Procurement Officer	PS2P Buyer
Receipt Confirmation	12			Unlimited	Unlimited	Unlimited	Unlimited					
Invoice Payment	13/17			Unlimited	Up to £1m or over £1m where previous delegation from Cabinet or Cabinet Member is in place*	Up to £500k	Up to £50k					
Contract Extension Approval		Unlimited	Unlimited	Up to £1m or over £1m with Cabinet or Cabinet Member Decision to <b>award-extend</b> and express authorisation of the Monitoring Officer to sign or seal*								
Contract Extension Signature	18		Unlimited where previously approved as designated signatory and where relevant authority is in place*	Unlimited with Cabinet or Cabinet Member Decision to award variation and express authorisation of the Monitoring Officer to sign or seal*	Unlimited Up to £500k and over £1m with Cabinet or Cabinet Member Decision to award variation and express authorisation of the Monitoring Officer to sign or seal*			Up to £1m or over £1m with Cabinet or Cabinet Member Decision to <b>award-extend</b> and express authorisation of the Monitoring Officer to sign or seal*	Up to £250k	Up to £100k	Up to £50k	Up to £8k
Procurement Plan Approval								Unlimited (Plans of >£1m or of significant risk or with political implications will be advised on by Procurement Board)	Up to £250k	Up to £100k	Up to £50k	

\* These decisions/actions are subject to statutory recording and publication requirements. Seek advice from Democratic Services.

\*\* These decisions/actions are subject to statutory recording and publication requirements when over £500k. Seek advice from Democratic Services.

Notes:

- Virement of £1m to £200k has to be signed off by Portfolio Cabinet Member, relevant Corporate Director, Deputy Leader and Cabinet Member for Finance and Procurement and Corporate Director of Finance and Procurement  
Advice should be sought as to whether the Virement requires a formal Decision to be taken.
- Virement less than £200k has to be signed off by the Corporate Director of Finance and Procurement along with the relevant Cabinet Member and Corporate Director.
- Virement of £200k to 50k has to be signed off by the Corporate Director of Finance and Procurement along with the relevant Cabinet Member and Corporate Director.
- Write off of obsolete stock up to £10k is in consultation with the Corporate Director of Finance and Procurement. Above £10k to be reported to Corporate Director of Finance and Procurement and Deputy Leader and Cabinet Member for Finance and Procurement and then taken to Scrutiny Committee for write off.
- Ex gratia payments above £6k Corporate Directors are responsible for obtaining approval from relevant Cabinet Member, Deputy Leader and Cabinet Member for Finance and Procurement and Corporate Director of Finance and Procurement.
- Write off of irrecoverable debts up to £10k is in consultation with the Corporate Director of Finance and Procurement. Above £10k should be put forward by the relevant Corporate Director to the Corporate Director of Finance and Procurement in his/her role of Section 151 Officer for his decision in consultation with the Deputy Leader and Cabinet Member for Finance and Procurement. A report by the relevant Corporate Director will also be submitted to Governance and Audit Committee.
- Award recommendation prepared by Procurement lead
- Authorities only valid if Contract Award Recommendation acceptance has been approved; will also require a review schedule e.g. with Legal Services for non-standard contract use; decisions on signing under seal or under hand
- Only valid for approved budgets/expenditure within plan – values will be used within i-Procurement
- Procurement authorities relate to own budget only
- For simple contracts only, those that are required to be sealed as required in "Contracts and Tenders Standing Orders" must be dealt with by Legal Services.
- May be exercised by any member of staff who can directly confirm correct receipt of goods, services or works
- Relates to signature on invoices; post i-Procurement implementation this authority is no longer required (3-way system match provides authorisation)
- Approval of a variation against an existing contract
- Approval of an extension to an existing contract, only valid if budget expenditure has been approved by relevant Service Officer
- Cabinet Member Approval where authority has been delegated, in some instances this may require Cabinet Approval in line with the Constitution
- For areas with high expenditure e.g. Highways, Property, ICT approval level can be increased to £5m for Service Directors at Corporate Directors discretion
- Variations/extensions must be sealed if the main contract is sealed unless specifically excluded in the contract





# **KENT COUNTY COUNCIL**

# **FINANCIAL REGULATIONS**

Amended by the Council: 22 July 2010  
23 May 2013  
21 May 2015

**June 2015**

The Council's Financial Regulations set the control framework for five key areas of activity:

**A. Financial Planning**

*Covers Performance Planning, Capital Strategy, Treasury Management Strategy, Pension Fund Investment and Administration Strategy, Revenue Strategy, Revenue Budgeting, Capital Programme and Budgeting, Reserves and Key Decisions.*

Full Council is responsible for receiving the Medium Term Financial Plans and formally agreeing the annual budget, in line with statutory guidance.

The Corporate Directors are responsible for contributing to the development of these plans, while the Corporate Director of Finance and Procurement is responsible for preparing and presenting them to the Cabinet for consideration.

**B. Financial Management**

*Covers Revenue budget monitoring and control, Virement, Treatment of year-end balances, Capital Budget Monitoring, Accounting Policies, Accounting records and returns, Annual Statement of Accounts, Contingent Liabilities, Financial implications of Reports.*

The Corporate Director of Finance and Procurement is responsible for developing, maintaining and monitoring compliance with an effective corporate financial framework. This will encompass detailed financial regulations, professional standards, key controls and good financial information.

The Corporate Directors will operate within this framework, alerting the Corporate Director of Finance and Procurement to any risk of non-compliance.

**C. Risk Management and Control of Resources**

*Covers Risk Management and insurance, Internal Control, Audit requirements, Preventing fraud and corruption, Assets, Treasury Management, Investments and Borrowing, Trust funds and funds held for third parties, Banking, Imprest Accounts, Staffing Costs.*

Cabinet and the Governance and Audit Committee are jointly responsible for agreeing the Council's risk management strategy, policy and supporting guidance and for reviewing the effectiveness of risk management within the Council.

The Corporate Director of Finance and Procurement is responsible for monitoring systems for risk management and systems of internal control. This will be monitored through an effective internal audit function.

The Corporate Directors are responsible for establishing sound arrangements within these systems and notifying the Corporate Director ~~Business Strategy and Support~~ Strategic and Corporate Services of any suspected non-compliance.

**D. Systems and Procedures**

*Covers general processes and procedures, Income, Ordering and Paying for Works, Goods and Services, Payments to employees and Members, Taxation, trading accounts/business units, Internal Recharges.*

The Corporate Director of Finance and Procurement is responsible for the Council's accounting control systems, the financial accounts, supporting information and all financial processes or procedures.

The Corporate Directors are responsible for the proper operation of all systems, processes and procedures. All exceptions to the corporately agreed standards will be agreed with Corporate Director of Finance and Procurement..

**E. External Arrangements**

*Covers Partnerships, External Funding, Work for third parties, Local Authority Companies.*

The Corporate Director of Finance and Procurement is responsible for promoting the same high standards of conduct in the financial management of partnerships and companies as within the Council.

The Corporate Directors are responsible for ensuring that the Council's interests are protected in such arrangements and that appropriate advice is taken at all stages.

## OVERALL FINANCIAL RESPONSIBILITIES

### Introduction

- 2.1 Financial management covers all financial accountabilities in relation to the running of the Council including the policy framework and budget. It is not possible to draft regulations or rules that cover every eventuality or circumstance. Consequently, the principles of sound financial management, proper exercise of responsibility, and accountability, as set out in Financial Regulations, should be applied in all circumstances, even where any particular circumstance is not specifically referred to.
- 2.2 **The full Council** is responsible for:
- i. setting the policy framework;
  - ii. approving and monitoring compliance with the Council's overall framework of accountability and control as set out in the Constitution;
  - iii. directly and through the Scrutiny Committee, for monitoring compliance with agreed policy, including revenue and capital budgets;
  - iv. approving procedures for recording and reporting decisions taken. This includes key and other decisions taken or delegated by the Leader and those decisions taken by the Council and its Committees or delegated by them to officers. These delegations and details of who has responsibility for which decisions are set out in the Constitution;
  - v. agreeing the annual budget and Council Tax;
  - vi. determining and keeping under review how much money the Council can afford to borrow for capital expenditure;
  - vii. approving the annual treasury management strategy;
  - viii. setting and revising the prudential indicators for capital finance and borrowing;
  - ix. approving the policy on Minimum Revenue Provision (MRP) as set out in the annual MRP statement;
  - x. setting the limits for virement or other budget changes through the Financial Regulations and decision making procedure rules;
  - xi. setting the limits defining key financial decisions;
  - xii. determining any expenditure proposed by the Leader or the Cabinet that is outside the limits referred to in v above;
  - xiii. Approving the Contracts and Tenders Standing Orders.
- 2.3 **The Leader** is responsible for:
- i. proposing the Medium Term Financial Plan, Budget, Council Tax and prudential indicators to the Council;
  - ii. approving revenue, capital strategies;
  - iii. determining which executive functions are exercised by him/herself, the Cabinet collectively, other individual members of the Cabinet or officers;
  - iv. ensuring that all executive decisions are taken in accordance with the Council's agreed principles of decision making including due consultation and the taking of professional advice from officers.
- 2.4 **Individual Cabinet Members** are responsible, within their allocated responsibility area and approved budget for:
- i. taking decisions in accordance with the framework of responsibilities delegated to them from the Leader;
  - ii. consulting with the Leader in relation to any proposed decisions as the Leader may direct;

- iii. complying with Financial Regulations in force as agreed by or on behalf of the County Council;
- iv. taking decisions which are otherwise delegated to officers but which are:
  - (a) not in accord with the Policy Framework or budget agreed by the Council or management and business plans within their portfolio;
  - (b) withdrawn from the delegation to Corporate Directors;
- v. taking account of legal and financial liabilities when taking decisions including due consultation with and the taking of advice from officers;
- vi. processing decisions in accordance with the decision making and reporting framework set out in the Constitution.

2.5 **The Scrutiny Committee Suite** is responsible for reviewing or scrutinising decisions made , or other action taken, in connection with the discharge of any executive or non-executive functions as defined in the Terms of Reference in Appendix 2 Part 2 of the Constitution. It is also responsible for co-ordinating the Council's Select Committee programme.

2.6 **The Governance and Audit Committee** is responsible for ensuring that:

- i. Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- ii. the Council's Corporate Governance framework meets recommended practice, is embedded across the whole Council and is operating throughout the year with no significant lapses.
- iii. the Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of work to be carried out is appropriate.
- iv. The appointment and remuneration of External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- v. The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- vi. The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- vii. Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- viii. Accounting policies are appropriately applied across the Council.
- ix. 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.
- x. The Council monitors the implementation of the Bribery Act policy to ensure that it is followed at all times.

2.7 **The Director of Governance and Law, as the Monitoring Officer**, is responsible for:

- i. after consulting with the Head of Paid Service and the Corporate Director of Finance and Procurement, reporting to the full Council (or to the Leader or Cabinet in relation to an executive function) if he/she considers that any proposal, decision or omission would give, is likely to give, or has given, rise to a contravention of any enactment or rule of law, or any maladministration or

- injustice. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered;
- ii. ensuring that records of executive decisions, including the reasons for those decisions and relevant officer reports and background papers, are made publicly available;
  - iii. advising whether decisions of the executive are in accordance with the Budget and Policy Framework. Actions that may be 'contrary to the Budget' include:
    - initiating a new policy for which no budget exists;
    - committing expenditure in future years above the approved budgeted level;
    - Effecting intra- and inter-portfolio transfers above virement limits;
    - causing the total expenditure financed from council tax, grants and corporately held reserves to increase beyond that provided for in the approved budget;
  - iv. providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues to all Members.

**2.8 The Head of Paid Service** is responsible for:

- i. overall corporate management and operational responsibility (including overall management responsibility for all staff);
- ii. the provision of professional advice to all parties in the decision making process (the executive, scrutiny, full council and other committees);
- iii. together with the Monitoring Officer, a system of record keeping for all the local authority's decisions (executive or otherwise);
- iv. reporting to the Council on the manner in which the discharge by the authority of its functions is co-ordinated;
- v. arrangements for internal control and the inclusion of the Annual Governance Statement in the annual accounts.

**2.9 The Corporate Director of Finance and Procurement, as the Chief Financial Officer**, has statutory duties in relation to the financial administration and stewardship of the authority. These statutory responsibilities cannot be overridden. The statutory duties arise from:

- i. Section 151 of the Local Government Act 1972
- ii. Local Government Finance Act 1988
- iii. The Local Government and Housing Act 1989
- iv. The Local Government Acts 2000 and 2003
- v. The Accounts and Audit Regulations ~~2011~~2015
- vi. ~~The Local Government Pension Scheme (Administration) Regulations 2008~~
- vi. The Local Government Pension Scheme Regulations (Management and Investment of Funds) 2009
- vii. The Local Government Pension Scheme Regulations 2013
- viii. The Local Authorities Goods and Services Acts 1970 and 1988.

**2.10 The Corporate Director of Finance and Procurement** is responsible for:

- i. after consulting with the Head of Paid Service and the Monitoring Officer, reporting to the full Council (or to the Leader or Cabinet in relation to an Executive function) and the Council's external auditor if he/she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency, or if the Council is about to enter an item of account unlawfully;

- ii. the proper administration of the financial affairs of the Council;
- iii. maintaining an adequate and effective system of internal audit;
- iv. contributing to the corporate management of the Council, in particular through the provision of professional financial advice;
- v. providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues to all Members and supporting and advising Members and officers in their respective roles;
- vi. providing financial information about the Council to Members, the media, members of the public and the community.

2.11 And in particular is responsible for:

- i. setting financial management standards, including financial procedures, and monitoring their compliance;
- ii. advising on the corporate financial position and on the key financial controls necessary to secure sound financial and risk management;
- iii. providing financial information to support the proper financial planning of the authority, to inform policy development, and to assist Members and officers in undertaking their financial responsibilities;
- iv. preparing the revenue budget, and reporting to the Council, when considering the budget and Council Tax, on the robustness of the estimates and the adequacy of reserves;
- v. monitoring income and expenditure against the budget and taking action if overspends of expenditure or shortfalls in income emerge;
- vi. preparing the capital programme and ensuring effective forward planning and sound financial management in its compilation;
- vii. producing prudential indicators, reporting them to the Leader and the Council for consideration and establishing procedures to monitor and report on performance in relation to these indicators;
- viii. treasury management, the management of the Council's banking arrangements and monitoring the Council's cashflow;
- ix. issuing advice and guidance to underpin the Financial Regulations that Members, officers and others acting on behalf of the Council are required to follow;
- x. ensuring that effective arrangements are in place for payments of creditors, income collection, administration of pensions, risk management and insurances and the production of financial management information;
- xi. ensuring that any partnership arrangements (or other innovative structures for service delivery) are underpinned by clear and well documented internal financial controls;
- xii. advising on anti-fraud and anti-corruption strategies and measures;
- xiii. contributing to cross-authority issues and to the development of the Council;
- xiv. ensuring that statutory and other accounts and associated claims and returns in respect of grants are prepared;
- xv. ensuring that due consideration is given to the Council's wellbeing, correct financial management and security of the Council's assets when establishing a company or partnership arrangement; **LINK**
- xvi. ensuring that the MRP calculation is prudent;
- xvii. taking ownership of the Council's corporate financial system;
- xviii. supporting the Superannuation Fund Committee in relation to the control and investment of the Kent Pension Fund. **LINK**

2.12 The, Corporate Director of Finance and Procurement in accordance with Section 114 of the 1988 Act will nominate a properly qualified member of staff to deputise for him / her as Chief Financial Officer should he/she be unable to personally perform the duties under Section 114.

2.13 **The Corporate Directors** are responsible for:

- i. ensuring that the Leader or relevant Cabinet Member is advised of the financial implications ~~and other significant risks~~ of all proposals for the changes in services or the development of new services and that the financial implications have been agreed by the Corporate Director of Finance and Procurement;
- ii. the signing of contracts on behalf of the Council provided that the expenditure to be incurred has the necessary budgetary approval. Further guidance regarding persons authorised to sign contracts on behalf of the Council can be found in the relevant directorate's Scheme of Financial Delegation;
- iii. promoting the financial management standards set by the Corporate Director of Finance and Procurement in their Directorates and to monitor adherence to standards and practices, liaising as necessary with the Corporate Director of Finance and Procurement;
- iv. promoting sound financial practices in relation to standards, performance and development of staff in their Directorates;
- v. consulting with the Corporate Director of Finance and Procurement and seeking his/her approval regarding any matters which are liable to affect the Council's finances materially, before any commitments are incurred;
- vi. ensuring that all staff in their Directorates are aware of the existence and content of the Council's Financial Regulations and any related procedures and other internal regulatory documents appertaining to or amplifying them and that they comply with them. They must also ensure that all of these documents are readily available for reference within their Directorates;
- vii. managing service delivery within the agreed revenue and capital budgets and other relevant strategies and plans;
- viii. developing performance, corporate and service targets and contributing to the Medium Term Financial Plan;
- ix. ensuring that budget estimates reflecting agreed service plans are prepared, and that these are prepared in line with issued guidance;
- x. ensuring that financial management arrangements and practice are agreed with the Corporate Director of Finance and Procurement, are legal and consistent with best practice and Council policy;
- xi. consulting with the Corporate Director of Finance and Procurement on the financial implications of matters relating to policy development;
- xii. putting in place a scheme of financial delegation setting out arrangements for the discharge of the Head of Paid Services and Corporate Directors responsibilities contained within Financial Regulations;
- xiii. arrangements for internal control and for inclusion in the annual accounts of the statement of internal control;
- xiv. ensuring that the Bribery Act Policy is implemented, promoted and complied with.



## **Personal Responsibilities**

- 2.14 Any person concerned with the use or care of the County Council's resources or assets should ensure they are fully conversant with the requirements of these Financial Regulations. All staff should notify their line manager immediately of any suspected fraud, theft, irregularity or improper use of or misappropriation of the authority's property or resources. Concerns may also be raised via the Whistleblowing Procedure. **LINK**
- 2.15 The Financial Regulations are a KCC policy and failure or refusal to follow the regulations along with the procedures/protocols identified in this document can be seen as misconduct as set out in the Blue Book.

## **FINANCIAL REGULATION A – FINANCIAL PLANNING**

### **Introduction**

- A.1 The full Council is responsible for agreeing the Budget, which will be proposed by the Leader. In terms of financial planning, the key elements are:
- i. the Medium Term Financial Plan
  - ii. A commissioning framework for Kent County Council: Delivering better outcomes for Kent residents through improved commissioning
  - iii. Supporting Independence & Opportunity: Corporate Outcomes Framework 2015-2019
  - iv. Public Service Agreement
  - v. Annual Performance Plans
  - vi. the Revenue Strategy and Budget
  - vii. the Capital Strategy and Programme
  - viii. the Treasury Management Strategy
  - ix. the Risk Management Strategy

### **Medium term budget and financial strategy**

- A.2 The Corporate Directors are responsible for ensuring that Revenue, Capital and Treasury strategies on a three year basis are prepared for consideration by the Cabinet and for ensuring that such strategies are consistent with other plans and strategies.
- A.3 The Leader will publish to all Council Members each year a review of the issues relating to the Medium Term Financial Plan.

### **Performance Planning**

- A.4 The Corporate Director of Finance and Procurement is responsible for:
- i. advising and assisting Directorates in producing the financial information that needs to be included in performance plans in accordance with statutory requirements and agreed timetables;
  - ii. the production of corporate guidance on the development of unit cost indicators and cost effectiveness measures;
  - iii. contributing, in collaboration with the Corporate Directors, to the development of corporate and service targets and objectives and performance information;
  - iv. assisting in building priorities identified within performance plans into corporate and Directorate budgets to enable delivery.
- A.5 The Corporate Directors are responsible for:
- i. contributing to the development of performance plans in line with the Council's requirements;
  - ii. contributing to the development of corporate and service targets and objectives and performance information;
  - iii. ensuring that Directorate service plans are clearly aligned with budgets, to enable the delivery of service priorities;
  - iv. ensuring that targets identified within performance plans are built into local work programmes and targets for management and service delivery staff.

## **The Kent Pension Fund**

- A.6 The Corporate Director of Finance and Procurement is responsible, in accordance with the Local Government Pension Scheme regulations, for ensuring the proper administration of the financial affairs of the Fund and:
- i. having taken appropriate professional advice, for preparing and submitting to the Superannuation Fund Committee; regular reviews of investment strategy, monitoring of investment managers, arrangements for admitted employers and reporting on the pensions administration service;
  - ii. the preparation and publication of the Pension Fund's annual report and accounts.

## **Revenue budgeting**

### *Budget format*

- A.7 The general format of the Budget will be proposed to the Leader by Corporate Director of Finance and Procurement. The draft Budget should include allocations to different services and projects, proposed sources of funding, proposed taxation levels and contingency funds.
- A.8 Guidelines on budget preparation are issued to Cabinet Members, Corporate Directors by the Leader on the recommendation of the Corporate Director of Finance and Procurement. The guidelines will take account of:
- i. legal requirements
  - ii. the Medium Term Financial Plan
  - iii. A commissioning framework for Kent County Council: Delivering better outcomes for Kent residents through improved commissioning
  - iv. Supporting Independence & Opportunity: Corporate Outcomes Framework 2015-2019
  - v. Public Service Agreement
  - vi. available resources
  - vii. spending pressures
  - viii. relevant Government guidelines
  - ix. other internal policy documents
  - x. cross cutting issues (where relevant).

### *Budget preparation*

- A.9 The Leader is responsible for developing and proposing to the County Council the general content of the revenue budget in consultation with the Corporate Director of Finance and Procurement.
- A.10 Budgets will be presented in both a Service Analysis and Directorate format. The Directorate format will align with the structure of the Council.
- A.11 The Head of Paid Services and the Corporate Director of Finance and Procurement are responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Leader and Cabinet before submission to the Full Council, in accordance with the Budget Procedure Rules, as set out in the Constitution.

- A.12 The Corporate Director of Finance and Procurement is responsible for:
- i. ensuring that a process is in place to identify potential pressures on the budget;
  - ii. reporting to the Full Council, when the Budget and Council Tax is considered, on the robustness of the estimates and the adequacy of reserves provided for.

A.13 The Corporate Director of Finance and Procurement is authorised to make any technical changes to the version of the budget approved by County Council e.g. to include the impact of late grant announcements, in consultation with the Leader and Cabinet Members providing these changes have no impact on the net budget requirement or council tax and do not materially alter the budget approved by County Council. The Corporate Director of Finance and Procurement will notify all members of any such changes included in the final published budget book.

- A.1314 The Corporate Directors are responsible for ensuring that budget estimates reflect agreed service plans, are submitted to the relevant Cabinet Member and the Leader and that these estimates are realistic and prepared in line with guidance issued by the Leader.

#### *Resource allocation*

- A.1415 The Leader in consultation with the Corporate Director of Finance and Procurement is responsible for developing and maintaining a resource allocation process that ensures due consideration of the Council's Policy Framework.

#### *Budget Amendment*

- A.1516 Approved revenue budgets may be amended during a financial year in accordance with the virement regulations in B6-B9.

- A.1617 The Corporate Directors may make changes to revenue budgets resulting from additional grant or other external income receivable during a financial year. Such changes must be notified to the Corporate Director of Finance and Procurement.

- A.1718 The Corporate Directors may make technical adjustments to revenue budgets during a financial year resulting from changes to grant rules or realignment of resources to approved business plans. Such changes must be notified to the Corporate Director of Finance and Procurement.

#### **Capital Programme and capital budgeting**

- A.1819 The Leader is responsible for developing and proposing the capital programme to the County Council in consultation with the Corporate Director of Finance and Procurement.

- A.1920 The Head of Paid Service and Corporate Director of Finance and Procurement are responsible for ensuring that a medium term capital programme and financing plan is prepared on an annual basis for consideration by the Leader before submission to the Full Council in accordance with the budget procedure rules as set out in the Constitution.

- A.2021 The Corporate Director of Finance and Procurement is responsible for advising on prudential indicators required to be set in accordance with the CIPFA Prudential

Code for Capital Finance in Local Authorities and for ensuring that all matters required to be taken into account in setting prudential indicators are reported to the Leader and the Council.

- A.2122 The Corporate Director of Finance and Procurement is responsible for:
- i. setting up procedures under which capital expenditure proposals are evaluated and appraised to ensure that value for money is being achieved, are consistent with service and asset management objectives and are achievable;
  - ii. setting up procedures for corporate monitoring of external sources of capital funding;
  - iii. ensuring that expenditure treated as capital expenditure by the County Council is in accordance with best accounting practice.

- A.2223 The Corporate Directors are responsible for:
- i. ensuring that capital proposals reflect agreed service plans, are prepared in line with guidance issued, are realistic, that necessary business case development and option appraisals have been carried out and any risks identified. Any impact of capital expenditure proposals on service running costs must be identified and included in revenue budget estimates or forecasts;
  - ii. consulting with the Corporate Director of Finance and Procurement the relevant Cabinet Member and the Deputy Leader and Cabinet Member for Finance and Procurement where it is proposed to bid for funding from external sources to support capital expenditure;
  - iii. ensuring that the Capital Process and Procedures are followed. **LINK** This includes ensuring that projects only proceed when they have received the necessary Project Advisory Group (PAG) approval and confirmation that any external funding is secured. For schemes and headings where the total cost is estimated to be £1m or more, or the scheme is reliant on ~~level-of~~ borrowing or capital receipt funding this consent must be obtained from the Leader following procedures issued by the Corporate Director of Finance and Procurement. The Leader may take the decision himself/herself or specifically delegate the decision to Cabinet or the relevant Cabinet Member. For schemes where the total cost is estimated to be less than £1m, and require no capital receipt or borrowing, consent must be obtained from the relevant Cabinet Member.
  - iv. ensuring that any new capital expenditure proposals which would require an increment to the total three year capital programme in order to proceed, regardless of funding, are agreed with the Corporate Director of Finance and Procurement and are submitted to the Leader for consideration via the PAG process;
  - iv. ensuring that, in addition to the PAG process, appropriate approval is sought where relevant from the Leader, the Cabinet or an authorised Cabinet Member in accordance with the Constitution.

*By way of clarification, PAG is an advisory group that oversees the capital programme and keeps track of current spending and cash flows. PAG does not replace the process for obtaining formal authority for a project and this is still needed.*

*Before a project can proceed, formal authority needs to have been obtained either through an explicitly approved budget in the Budget Book or business plan or through an explicit approval obtained by following the decision making procedures set out in the Council's Constitution and the Code of Practice for Contracts and Tenders (as detailed in Spending the Council's Money). **LINK** This applies even if PAG has already approved the proposed spending on the project.*

- vi. carrying out post completion evaluation of projects as required, in order to review performance in implementation of the project against budget and project plans and to evaluate performance of the project in the delivery of expected outcomes.

### **Maintenance of reserves & provisions**

**A.2324** The Corporate Director of Finance and Procurement is responsible for:

- i. advising the Leader and the Council on prudent levels of reserves for the Authority when the annual budget is being considered having regard to assessment of the financial risks facing the Authority;
- ii. ensuring that reserves are not only adequate but also necessary;
- iii. ensuring that there are clear protocols for the establishment and use of each earmarked reserve. Reserves should not be held without a clear purpose or without a planned profile of spend and contributions, procedures for the reserves managements and control, and a process and timescale for review of the reserve to ensure continuing relevance and adequacy;
- iv. ensuring that all renewals reserves are supported by a plan of budgeted contributions, based on an asset renewal plan that links to the fixed asset register;
- v. ensuring that no money is transferred into reserves after 31st December each financial year without prior agreement.

**A.2424** The Corporate Director of Finance and Procurement is responsible for ensuring that provisions are set up for any liabilities of uncertain timing or amount that have been incurred and are required to be recognised when:

- i. the Council has a present obligation (legal or constructive) as a result of a past event
- ii. it is probable that a transfer of economic benefits will be required to settle the obligation, and
- iii. a reliable estimate can be made of the amount of the obligation.
- iv. If the Council does not yet have an obligation / or expects to have a future obligation as a result of something that has not yet happened, then either a reserve should be set up and the regulations in A.23 above apply or a contingent liability should be set up and the regulations in A.25 below apply.

**A.2526** The Corporate Director of Finance and Procurement is responsible for ensuring that contingent liabilities are noted in the accounts for probable liabilities where a reliable estimate cannot be made and are recognised when:

- i. the Council has a present obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council; or

- ii. the Council has a present obligation that arises from past events but is not recognised because:
  - a. it is not probable that a transfer of economic benefits will be required to settle the obligation, or
  - b. the amount of obligation cannot be measured with sufficient reliability.
- iii. If it becomes probable that a transfer of economic benefits will be required to settle the obligation then the regulations set out in A.24 will apply.

### **Key decisions**

| A.2627 Cabinet Members are responsible, within their allocated responsibility area and approved budget, for taking decisions as agreed by the Leader of the County Council.

| A.2728 All decisions must be processed in accordance with the decision making and reporting framework set out in the Constitution and in taking decisions Cabinet Members must comply with the County Council's Financial Regulations.

## **FINANCIAL REGULATION B - FINANCIAL MANAGEMENT**

### **Introduction**

- B.1 The Corporate Director of Finance and Procurement is responsible for:
- i. ensuring that a prudential financial framework is in place and effective systems of financial administration are operating within the Council;
  - ii. maintaining and updating financial regulations and the management of a process for monitoring compliance with them;
  - iii. ensuring proper professional practices are adhered to and acting as head of profession in relation to the standards, performance and development of finance staff throughout the Council;
  - iv. advising on the key strategic controls necessary to secure sound financial management;
  - v. ensuring that financial information is available to enable accurate and timely monitoring and reporting of comparisons of national and local financial performance indicators;
  - vi. ensuring that Internal Audit carry out the necessary probity and system checks required to verify that proper Financial Management Standards are maintained.

### **Revenue Budget Monitoring and Control**

- B.2 The Corporate Director of Finance and Procurement is responsible for:
- i. providing appropriate financial information to enable budgets to be monitored effectively;
  - ii. monitoring and controlling overall expenditure against budget allocations and publishing a report to the Cabinet on the overall position on a regular basis, drawing attention to overspends, shortfalls in income and underspends including reference to proposed action to deal with any problems.
- B.3 It is the responsibility of the Corporate Directors to:
- i. control income and expenditure within their area and to monitor performance, taking account of financial information and activity data relating to the services they provide;
  - ii. have a robust system in place for monitoring activity levels which drive major budget headings (over £10m);
  - iii. report to the Corporate Director of Finance and Procurement and to the relevant Cabinet Member on variances within their own areas;
  - iv. ensure that spending remains within the service's overall cash limit, by monitoring the budget headings and taking appropriate corrective action where variations from the approved budget are forecast, alerting the Corporate Director of Finance and Procurement and Cabinet Member to any problems;
  - v. ensure that an accountable budget manager is identified for each item of income and expenditure under the control of the Corporate Director. As a general principle, budget responsibility should be aligned as closely as possible to the decision-making that commits expenditure;
  - vi. ensure that a monitoring process is in place to review performance levels/levels of service in conjunction with the budget and is operating effectively;
  - vii. ensure prior approval by the Leader and the relevant Cabinet Member and notification to the Scrutiny Committee of new proposals, which fulfil one or more of the following criteria:



- a. create financial commitments in future years in excess of existing budgets
  - b. change existing policies, initiate new policies or cease existing policies
  - c. materially extend or reduce the Council's services
  - d. exceed the limit defined by the Council as a key financial decision
  - e. exceed any limit set by the Leader as requiring reference to him or a Cabinet Member
  - f. any such proposals under this regulation shall not have approval to proceed until necessary financial provision is available within approved budgets
- viii. ensure compliance with the scheme of virement as set out in paragraph B6 below.

### **Financial Implications of Reports**

B.4 The Corporate Director of Finance and Procurement is responsible for:

- i. monitoring the quality of the financial implications information included in reports by the Corporate Directors;
- ii. providing financial implications where there are corporate implications and especially when corporate resources (revenue or capital) are required.

B.5 The Corporate Directors are responsible for:

- i. ensuring that financial implications in either the current or future years are identified within Directorates for all relevant reports and that such financial implications are agreed by or on behalf of the nominated responsible professional finance officer (Section 151 Officer or Finance Business Partner)
- ii. where reports impact on other Directorates or have implications for corporate resources, ensuring that the report includes the impacts or implications for all Directorates affected and that a copy of the report is submitted to the Corporate Director of Finance and Procurement or nominated representative for clearance;
- iii. ensuring in all relevant circumstances, that financial implications referred to in reports are reflected in current budgetary provisions or the medium term financial plan.

### **Virement**

B.6 Transfers between revenue budget headings can take place as follows provided that they do not involve new policy or policy change and do not involve an increasing commitment in future years that cannot be contained within existing approved budget allocations. If these transfers do not change the purpose for which the funding was approved then these will be considered technical adjustments and not virements. If a change to the purpose of the funding is required so that funding will be used for a purpose different to that for which it was approved, then a virement is required. Once again this must not involve an increasing commitment in future years that cannot be contained within existing approved budgets. Virements must be approved as follows:

a. Virement within a Portfolio:

<b>Less than £200,000</b>	the Head of Paid Service or relevant Corporate Director in agreement with the appropriate Cabinet Member and the Corporate Director of Finance and Procurement.
<b>From £200,000 up to (but not including) £1m</b>	the relevant Cabinet Member in agreement with the Deputy Leader and Cabinet Member for Finance and Procurement, Corporate Director and Corporate Director of Finance and Procurement.
<b>£1m and above</b>	The Leader or Cabinet

b. Virement between portfolios:

<b>Less than £200,000</b>	the Head of Paid Service or relevant Corporate Directors in agreement with the appropriate Cabinet Members and the Corporate Director of Finance and Procurement.
<b>From £200,000 up to (but not including) £1m</b>	the relevant Cabinet Members in agreement with the Deputy Leader and Cabinet Member for Finance and Procurement, relevant Corporate Directors and Corporate Director of Finance and Procurement.
<b>£1m and above</b>	The Leader or Cabinet

B.7 Transfers involving a new policy or a change in an existing policy require prior approval by the Leader and Cabinet Member and notification to the Scrutiny Committee in accordance with regulation B3(vi) above.

B.8 For the purpose of the amounts referred to in regulation B6, where transfers are a single transaction they must be effected as such and must not be effected as two or more smaller transactions.

B.9 Virement limits are cumulative, therefore when transferring budget from a heading, all previous virements from this heading must be taken into account when deciding the level of approval required, ensuring the highest level of approval has been/ will be sought.

B.10 Where an approved budget is a lump sum budget or a contingency intended for allocation during the year, its allocation will not be treated as virement, provided that the amount has been used in accordance with the purposes for which it was established and the Corporate Director of Finance and Procurement has agreed the basis and the terms, including financial limits, on which it will be allocated.

B.11 The Corporate Director of Finance and Procurement is responsible for monitoring and recording virements agreed and reporting to the Cabinet on the impact on revenue budgets.

### **Treatment of year-end balances**

B.12 Cabinet is responsible for agreeing the detail of any annual roll forward of under and overspending on budgets.

## Capital Budget Monitoring

B.13 The Corporate Director of Finance and Procurement is responsible for preparing and submitting reports on the Council's projected capital expenditure and resources compared with the budget on a regular basis.

B.14 The Corporate Director of Finance and Procurement is responsible for establishing procedures to monitor and report on performance compared to the prudential indicators set by the Council.

B.15 The Corporate Directors are responsible for:

- i. preparing regular reports reviewing the capital programme provisions for their services;
- ii. preparing regular returns of estimated final costs of schemes in the approved capital programme for submission to the Corporate Director of Finance and Procurement for inclusion in the report to Cabinet on the overall Capital programme position;
- iii. reporting to the Corporate Director of Finance and Procurement circumstances when it is considered that additional County Council capital resources will be required to implement a project that has previously been given approval to spend, where such additional resources cannot be identified from within the Portfolio programme concerned;
- iv. reporting to the Corporate Director of Finance and Procurement on any proposed variations to the Capital Programme during a financial year;
- v. reporting to the Corporate Director of Finance and Procurement on any proposed additions to the Capital Programme resulting from the receipt of additional grant or other external funding. If this relates to an entirely new scheme then it must be considered by PAG and approved by the relevant Cabinet Member.
- vi. Reporting the completion dates on major projects, over £1m.

B.16 Resources may be vired from one capital project or heading as follows provided that such transfers do not result in an overall increased commitment of capital resources and do not involve new policy or policy changes:-

Less than £50,000	the Head of Paid Service or relevant Corporate Director(s)
From £50,000 up to (but not including) £200,000	the relevant Corporate Director(s) in agreement with the relevant Cabinet Member(s) and the Corporate Director of Finance and Procurement
£200,000 up to (but not including) £1m	the relevant Cabinet Member(s) in agreement with the Deputy Leader and Cabinet Member for Finance and Procurement, Corporate Director(s) and Corporate Director of Finance and Procurement
£1m and above	the Leader or Cabinet

*Virement limits are cumulative, please refer to B9 for explanation*

For the purpose of the amounts above, where transfers are a single transaction they must be effected as such and not effected as two or more smaller transactions.

## Accounting policies

B.17 The Corporate Director of Finance and Procurement is responsible for selecting and notifying to the Corporate Directors accounting policies which comply with the current Accounting Code(s) of Practice, ensuring that such policies are applied consistently, and for ensuring that effective systems of internal control are in place that ensure that financial transactions are lawful.

B.18 The Corporate Directors are responsible for adhering to the accounting policies notified by the Corporate Director of Finance and Procurement.

## Accounting records and returns

B.19 The Corporate Director of Finance and Procurement is responsible for:

- i. determining the accounting records for the Authority including the Kent Pension Fund, its form of accounts and supporting accounting records;
- ii. ensuring that accounting records are maintained in accordance with proper practices and legislative requirements;
- iii. establishing arrangements for the compilation of all accounts and accounting records whether within the Finance Group or within other Directorates.

B.20 The Corporate Directors are responsible for:

- i. consulting with the Corporate Director of Finance and Procurement on the accounting procedures and records to be utilised within their Directorate;
- ii. ensuring the proper retention of accounting records in accordance with the requirements established by the Corporate Director of Finance and Procurement, including the retention of prime financial documents i.e. invoices, delivery notes and purchase orders for the year they relate to plus a further 6 years. Invoices paid for by EU Grants must be identified and kept for 12 years; **LINK**
- iii. ensuring that all claims for funds including grants are made by the due date, are recorded in the central register, and in line with the 'corporate grant procedure'; **LINK**
- iv. maintaining adequate records to provide a management trail leading from the source of income/expenditure through to the accounting statements;
- v. providing information required for, or to ensure completion of, all statutory and other financial returns by the due dates;
- vi. complying with any compliance testing which the Corporate Director of Finance and Procurement requires in relation to the Directorate accounts;
- vii. operating control accounts as agreed by the Corporate Director of Finance and Procurement, ensuring that these are regularly reconciled, and cleared as part of the regular monitoring procedures.

## The annual statement of accounts

B.21 The Governance and Audit Committee is responsible for approving the annual statement of accounts of the Authority and the Pension Fund on behalf of the Council.

B.22 The Corporate Director of Finance and Procurement is responsible for:

- i. ensuring that the annual statement of accounts is prepared by the required statutory date in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: Based on International Financial Reporting Standards for the relevant year and that the accounts present a true and fair view of the financial position of the Council and its expenditure and income;
- ii. liaising with External Audit on the completion of the Statement of Accounts and the arrangements for the audit of these;
- iii. ensuring that adequate documentation is available to support the Statement of Accounts. This will include copies of grant claims, reconciliations with financial ledgers and other records, and other working papers to demonstrate the derivation of data used;
- iv. the preparation of the Pension Fund's Statement of Accounts in accordance with practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom.

B.23 The Corporate Directors are responsible for:

- i. complying with accounting guidance agreed with the Corporate Director of Finance and Procurement;
- ii. supplying the Corporate Director of Finance and Procurement with information required to complete the Statement of Accounts;
- iii. producing the documentation required to support the Statement of Accounts;
- iv. ensuring that the Closedown Pack – Guidance for Managers is completed in accordance with the annual timetable agreed with the Corporate Director of Finance and Procurement.

### **Contingent Liabilities**

B.24 The Corporate Director of Finance and Procurement is responsible for:

- i. reviewing at least annually in consultation with Corporate Directors the existing contingent liabilities for inclusion as a note in the statement of accounts, to ensure they are still contingent and to ensure that adequate reserves exist to cover the potential liability if necessary;
- ii. taking steps wherever possible, in consultation with the Corporate Directors, to minimise the risk of contingent liabilities.

B.25 The Corporate Directors are responsible for:

- i. setting up procedures and processes to minimise the risk of creating contingent liabilities;
- ii. reviewing at least annually their service areas for contingent liabilities;
- iii. informing the Corporate Director of Finance and Procurement of any new contingent liabilities and of any changes in the circumstances of existing contingent liabilities.

## **FINANCIAL REGULATION C – RISK MANAGEMENT AND CONTROL OF RESOURCES**

### **Introduction**

C.1 It is essential that robust systems are developed and maintained for identifying and evaluating all significant strategic, operational and financial risks to the Authority on an integrated basis. This should include the proactive participation of all those associated with planning and delivering services.

### **Risk management and insurance**

C.2 The Cabinet and the Governance and Audit Committee are jointly responsible for approving the Council's Risk Management Strategy, Policy and guidance and for reviewing the effectiveness of risk management.

C.3 The Corporate Director Strategic and Corporate Services is responsible for preparing the Authority's Risk Management Strategy and Policy and for promoting it throughout the Council. The Corporate Director of Finance and Procurement is responsible for:

- i. advising the Leader, Deputy Leader and Cabinet Member for Finance and Procurement and Cabinet on proper insurance cover where appropriate;
- ii. effecting, in consultation with the Deputy Leader and Cabinet Member for Finance and Procurement, corporate insurance cover, through external insurance and internal funding;
- iii. establishing arrangements for the handling of all insurance claims, in consultation with other officers where necessary;
- iv. undertaking a review of requirements to support the annual renewal of insurance contracts;
- v. ensuring that internal insurance provisions are adequate to meet anticipated claims.

C.4 The Corporate Directors are responsible for:

- i. the identification and management of risk within their Directorate and for having in place monitoring processes for reviewing regularly the effectiveness of risk management arrangements.
- ii. complying with procedures agreed regarding the instigation, renewal, maintenance and amendment of the Council's insurance arrangements.

### **Internal control**

C.5 The Corporate Director of Finance and Procurement is responsible for:

- i. monitoring the systems for risk management and systems of internal control. This will be monitored through an effective internal audit function.
- ii. reviewing systems of internal control at least annually and providing an opinion on internal control within the Council in order to advise the Head of Paid Service on an Annual Governance Statement to be included in the Statement of Accounts.

C.6 The Corporate Directors are responsible for:

- i. establishing sound arrangements for planning, appraising, authorising, monitoring and controlling their operations in order to achieve continuous

- improvement, economy, efficiency and effectiveness and for achieving their financial performance targets;
- ii. promoting compliance with Council Policy, Standing Orders, Financial Regulations, Codes of Conduct and any statutory requirements;
- iii. promoting an overall effective internal control system. Managerial Control Systems, including appropriate organisation structures, personnel arrangements and supervision, as well as Financial and Operational Control Systems and procedures, including physical safeguards of assets, segregation of duties, authorisation and approval procedures and information systems, should be documented and regularly reviewed;
- iv. providing assurances for the annual governance statement, that financial and operational control processes are in place to enable Directorates to achieve their objectives and manage significant risks.

## **Audit requirements**

- C.7 The Accounts and Audit Regulations ~~2014–2015~~ require every local authority to maintain an adequate and effective internal audit of its accounting records and its system of internal control.
- C.8 The Local Audit and Accountability Act 2014 (the Act) abolished the Audit Commission and requires relevant authorities to appoint their own local (external) auditors on the advice of an auditor panel. As an interim measure national 5-year contracts were awarded that expire in 2016 (subsequently amended to 2017), the requirement to appoint will apply once those contracts end and to meet the Act's deadline local auditors will need to be appointed by 31<sup>st</sup> December ~~2016~~2017. The code of audit practice and guidance for local audit are governed by section 5 of the Act.
- C.9 The Council may, from time to time, be subject to inspection or investigation by external bodies such as H.M. Revenue and Customs who have statutory rights of access.
- C.10 The Corporate Director of Finance and Procurement is responsible for:
  - i. ensuring an effective internal audit function, through adequate resourcing and coverage properly planned and determined through assessment of risk and consultation with management;
  - ii. ensuring that effective procedures are in place to investigate promptly any fraud or irregularity;
  - iii. ensuring that external auditors are given access at all reasonable times to premises, personnel, documents and assets that the external auditors consider necessary for the purposes of their work;
  - iv. ensuring there is effective liaison between external and internal audit;
  - v. ensuring that when information is requested in connection with inspections, audits, reviews and investigations the information requested is provided as soon as reasonably practicable and in any event within fourteen days of the request being made.
- C.11 The Corporate Directors are responsible for:
  - i. notifying the Head of Internal Audit immediately of any suspected fraud, theft, irregularity or improper use of or misappropriation of the Council's property or resources. Pending investigation and reporting, all necessary steps should be

- taken to prevent further loss and to secure records and documentation against removal or alteration;
- ii. ensuring that internal and external audit are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work;
  - iii. ensuring that all records and systems are up to date and available for inspection;
  - iv. ensuring that when information is requested in connection with inspections, audits, reviews and investigations the information requested is provided as soon as reasonably practicable and in any event within fourteen days of the request being made.

## **Preventing fraud and corruption**

C.12 The Corporate Director of Finance and Procurement is responsible for developing, reviewing and maintaining an Anti Fraud and Corruption Strategy and for advising on effective systems of internal control to prevent, detect and pursue fraud and corruption. **LINK**

C.13 The Corporate Directors are responsible for ensuring compliance with the Anti fraud and Corruption Strategy and with systems of internal control to prevent, detect and pursue fraud and corruption.

## **Assets**

### *Security of Assets*

C.14 The Corporate Director of Finance and Procurement is responsible for ensuring that processes are in place for maintaining asset registers in accordance with good practice for fixed assets. The function of the Asset Register is to provide the Council with information about fixed assets so that they are safeguarded, used efficiently and effectively and adequately maintained, as well as for accounting purposes.

C.15 The Corporate Directors should ensure that assets, and records relating to these, are properly maintained. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place.

### *Inventories*

C.16 The Corporate Directors are responsible for maintaining and reviewing annually inventories of equipment, plant and machinery which has a value of over £200 or is portable and attractive.

### *Asset Disposal*

C.17 The Corporate Director of Finance and Procurement in conjunction with the Head of Paid Service is responsible for issuing guidelines representing best practice for the disposal of equipment, plant and machinery.

C.18 Corporate Directors are responsible for complying with issued guidelines in respect of all asset disposals.



### *Stocks of goods and materials*

C.19 Corporate Directors are responsible for:

- i. ensuring that stocks of goods and materials are held at a level appropriate to the business needs of the Council;
- ii. ensuring that adequate arrangements are in place for their care and custody;
- iii. writing off the value of obsolete stock in their Directorates of up to £10,000 in consultation with the Corporate Director of Finance and Procurement. All sums above £10,000 should be reported by the relevant Corporate Director to the Corporate Director of Finance and Procurement and Deputy Leader and Cabinet Member for Finance and Procurement and then to the Scrutiny Committee for write off action.

### *Intellectual Property*

C.20 The Head of Paid Service is responsible in conjunction with the Director of Governance and Law for developing and disseminating best practice regarding the treatment of intellectual property.

C.21 The Corporate Directors are responsible for:

- i. ensuring that controls are in place to ensure that staff do not carry out private work in council time and that staff are aware that anything they create during the course of their employment, whether written or otherwise, belongs to the Council;
- ii. complying with copyright, designs and patent legislation and, in particular, to ensure that:
  - a. only software legally acquired and installed by the Council is used on its computers,
  - b. staff are aware of legislative provisions, and
  - c. in developing systems, due regard is given to the issue of intellectual property rights.

### **Treasury Management**

C.22 The Corporate Director of Finance and Procurement is responsible for:

- i. reporting to the Deputy Leader and Cabinet Member for Finance and Procurement, in accordance with the CIPFA Code of Practice on Treasury Management in the Public Services and accordingly will create and maintain, as the cornerstones for effective treasury management:
  - a. a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
  - b. suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities;

The content of the policy statement and TMPs will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the Council materially deviating from the Code's key principles.

- ii. reporting to the Council on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs;
- iii. establishing procedures to monitor and report on performance in relation to Prudential Indicators set by the Council;
- iv. ensuring that all borrowing and all investments of money are made in the name of the Council or in the name of an approved nominee.

C.23 This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director of Finance and Procurement, who will act in accordance with the Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's standard of professional practice on treasury management.

C.24 This Council nominates the Treasury Management Advisory Group and Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

### **Loans to third parties and acquisition of third party interests**

C.25 The Corporate Director of Finance and Procurement is responsible for ensuring, jointly with the Corporate Directors, that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the Full Council, the Leader, Cabinet or the Deputy Leader and Cabinet Member for Finance and Procurement. **LINK**

### **Trust Funds and funds held for third parties**

C.26 Corporate Directors are responsible for arranging for all Trust Funds to be held, wherever possible, in the name of the Council and ensuring that Trust Funds are operated within any relevant legislation and the specific requirements for each Trust.

### **Banking**

C.27 The Corporate Director of Finance and Procurement is responsible for:

- i. the control of all money in the hands of the Council;
- ii. operating central bank accounts as are considered necessary to the efficient operation of the Council's activities, within the terms agreed with the Council's bankers and reconciled weekly or monthly as required;
- iii. approving the opening or closing of any bank account operated by the County Council.

C.28 The Corporate Directors are responsible for operating bank accounts opened with the approval of the Corporate Director of Finance and Procurement in accordance with issued guidelines.

## Imprest Accounts

- C.29 The Corporate Director of Finance and Procurement is responsible for providing, in agreed circumstances and where such need is proven to be essential, cash or bank imprest accounts to meet minor or other agreed expenditure and for prescribing procedures for operating these accounts. **LINK**
- C.30 The Corporate Directors are responsible for the operation of approved cash and bank imprest accounts in accordance with procedures issued by the Corporate Director of Finance and Procurement . **LINK**

## Credit Cards and Purchase Cards

- C.31 The Corporate Director of Finance and Procurement is responsible for:
- i. providing credit cards and purchase cards to be used for agreed purposes and to be allocated to nominated members of staff;
  - ii. prescribing procedures for the use of credit cards and purchase cards and the accounting arrangements required to record and monitor expenditure incurred with such cards.
- C.32 The Corporate Directors are responsible for:
- i. Operating the use of credit cards and purchase cards in accordance with the procedures issued by the Corporate Director of Finance and Procurement. **LINK**

## Card Payment Arrangements

- C.33 The Corporate Director of Finance and Procurement is responsible for:
- i. ensuring that card payment arrangements including chip and pin terminals and web based systems, set up for agreed purposes and assigned to nominated staff, are compliant with Payment Card Industry Data Security Standards (PCI DSS)
- C.34 The Corporate Directors are responsible for:
- i. maintaining secure card payment arrangements in accordance with the procedures issued by the Corporate Director of Finance and Procurement

## Staffing Costs

- C.3335 The Head of Paid Service is responsible for ensuring that there is proper use of the evaluation or other agreed systems for determining the remuneration of a job.
- C.3436 The Corporate Directors are responsible for:
- i. the management of total staff numbers by:
    - a. advising the Leader and the relevant Cabinet Member on the budget necessary in any given year to cover estimated staffing levels;

- b. adjusting the staffing numbers to that which can be funded within approved budget provision;
- ii. the proper use of appointment procedures;
- iii. monitoring staff activity to ensure adequate control over such costs as sickness, overtime, training and temporary staff;
- iv. ensuring that the staffing budget is not exceeded unless the necessary additional ongoing funding is available and the agreement of the relevant Cabinet Member or the Leader or Cabinet is obtained as required.

Further guidance regarding authorisations to appoint members of staff is available in the relevant directorate's Scheme of Financial Delegation.

## FINANCIAL REGULATION D – SYSTEMS AND PROCEDURES

### Introduction

D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

### General

D.2 The Corporate Director of Finance and Procurement is responsible for:

- i. determining the Council's accounting control systems, the form of accounts and the supporting financial records and for ensuring that systems determined by him/her are observed;
- ii. approving any changes proposed by the Corporate Directors to the existing financial systems or procedures or the establishment of new systems or procedures;
- iii. compiling, in consultation with the Corporate Directors, a Business Continuity Plan to provide for as normal a continuation of financial services as possible in the event of any incident affecting systems used to deliver those services.

D.3 The Corporate Directors are responsible for:

- i. the proper operation of financial procedures and financial processes in their own Directorates in accordance with the systems and procedures set out by the Corporate Director of Finance and Procurement;
- ii. obtaining the approval of the Corporate Director of Finance and Procurement for any developments of new systems and changes to existing systems, by Corporate Directors that involve a financial operation or produce output that may influence the allocation of resources;
- iii. ensuring that their staff receive relevant financial training;
- iv. ensuring that, where appropriate, computer and other systems are registered in accordance with Data Protection legislation. The Corporate Directors must ensure that staff are aware of their responsibilities under the Data Protection and Freedom of Information legislation;
- v. ensuring, jointly with the Corporate Director of Finance and Procurement that there is a documented and tested Business Continuity Plan to allow information system processing to resume quickly in the event of an interruption;
- vi. ensuring that Oracle Financials is utilised except where otherwise agreed by the Corporate Director of Finance and Procurement;
- vii. ensuring that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements agreed with the Corporate Director of Finance and Procurement. **LINK**

### Income

D4 The Governance and Audit Committee is responsible for approving procedures for writing off debts as part of the overall framework of accountability and control.

D.5 The Corporate Director of Finance and Procurement is responsible for:

- i. setting the debt management policy for the County Council in order to maximise the income due to the Council and its collection;
- ii. approving the procedures, systems and documentation for the collection of income;

- iii. examining and actioning requests for write offs submitted by Corporate Directors;
- iv. maintaining a record of all sums written off and adhering to the requirements of the Accounts and Audit Regulations;
- v. ensuring that appropriate accounting adjustments are made following write off action;
- vi. ensuring, in consultation with the Corporate Directors, that adequate provision is made for potential bad debts arising from uncollected income.

D.6 The Corporate Director of Finance and Procurement is authorised to write-off the following types of debt where:

- i. the debtor has gone into liquidation or is deceased and there are no funds nor estate on which to claim for recovery of the debt;
- ii. the evidence against a debtor is inconclusive, and the Director of Governance and Law recommends write-off;
- iii. the debtor has absconded and all enquiries have failed;
- iv. the debtor is in prison and has no means to pay;-
- v. the debt is statute barred under the Limitations Act 1990 and the Care Act 2014;
- vi. the debt is remitted by a magistrate.

D.7 Other than covered in D6, all debt write offs over £10,000 should be put forward by the relevant Corporate Director to the Corporate Director of Finance and Procurement in his role of Section 151 Officer for his decision in consultation with the Deputy Leader and Cabinet Member for Finance and Procurement. The relevant Corporate Director will also submit a report for information, comment and assurance to the Governance and Audit Committee, setting out the operational reasons for the write-off.

D.8 The Corporate Directors are responsible for:

- i. compliance with the agreed debt management policy of the Council; **LINK**
- ii. the write-off of irrecoverable debts in their Directorates of up to £10,000 in consultation with the Corporate Director of Finance and Procurement;
- iii. ensuring that there is an annual review of fees and charges and that proposals for the level of fees and charges are approved by the Leader or relevant Cabinet Members;
- iv. ensuring that the agreed charging policy is implemented and consistently applied in respect of each relevant activity and service;
- v. separating, as far as is practicable, the responsibility for identifying amounts due and the responsibility for collection;
- vi. ensuring official receipts are issued and to maintain any other documentation for income collection purposes;
- vii. holding securely receipts, tickets and other records of income;
- viii. ensuring the security of cash handling.

## **Ordering and Paying for Works, Goods and Services**

D.9 The Corporate Director of Finance and Procurement is responsible for:

- i. ensuring that all the Council's financial systems and procedures for ordering and paying for works, goods and services are sound and properly administered;
- ii. agreeing, in consultation with the Corporate Directors where appropriate, any changes to existing financial systems and to approve any new systems before they are introduced;

- iii. agreeing the form of official orders and associated terms and conditions;
- iv. making payments from the Authority's funds on the Corporate Director's authorisation that the expenditure has been duly incurred in accordance with Financial Regulations;
- v. defining the requirements for the electronic approval of order or checking and certification of invoices prior to payment to confirm that the goods have been ordered and received, the invoice is in order and is certified for payment by the nominated budget manager. The Corporate Director of Finance and Procurement will set and review a value for invoices, currently £250, below which payment will be made on certification that goods or services have been received and that the invoice is in order but will not require the additional certification of the budget manager;
- vi. making payments, whether or not provision exists within the estimates, where the payment is specifically required by statute or is made under a Court Order;
- vii. making payments to contractors on the certificate of a Corporate Director, which must include details of the value of work, retention money, amounts previously certified and amounts now certified.

D.10 The Corporate Directors are responsible for:

- i. ensuring that the Council's corporate financial systems are used for payment for work, goods and services except where specialist systems are used in agreement with the Corporate Director of Finance and Procurement. Staff should not use personal credit cards to pay for work, goods or services on behalf of the Council;
- ii. ensuring that i-Procurement is used for raising orders in the first instance, any verbal orders for works, goods or services are only placed exceptionally and are confirmed with an official i-Procurement order;
- iii. ensuring that orders are only used for goods and services provided to their Directorates. Individuals must not use official orders to obtain goods or services for their private use;
- iv. ensuring that only those staff authorised in the delegated authority matrix (see appendix 1) approve expenditure and sign orders or where necessary ensure they are sealed by Legal Services.
- v. ensuring that goods and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different person from the person who authorised the order;
- vi. ensuring that payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment;
- vii. ensuring that payments are not made in advance of goods being supplied, work done or services rendered to the Council except with the approval of the Corporate Director of Finance and Procurement;
- viii. ensuring that invoices are approved for payment by staff authorised by the Corporate Directors and that details of such authorised staff, including specimen signatures and limits of authority, are provided to the Payments Team;
- ix. ensuring that all undisputed invoices are settled within 20 days from receipt of the invoice;

- x. ensuring that the Directorate obtains best value from purchases by contacting Strategic Sourcing and Procurement Team for any purchases over £50k, following the guidance in the Knet Procurement pages [LINK](#) and complying with the Council's Code of Practice for Tenders and Contracts 'Spending the Council's Money' which is incorporated in the KNet Procurement pages. Compliance with spend mandates, which are published in the how to buy guides accessible via the Knet Procurement page. [LINK](#)

D.11 Deviation from the delegated authority matrix is not generally expected. However, if a different financial limit is required the amendment should be requested via a business case and approved as follows:

<u>Requester</u>	<u>Approver</u>
<u>Budget Manager</u>	<u>Head of Service</u>
<u>Head of Service</u>	<u>Service Director</u>
<u>Service Director</u>	<u>Corporate Director</u>

D.4412 All transactions must fall within the powers delegated to officers or have been approved by a decision (in accordance with the Council's Constitution) of the Cabinet, the Leader, an authorised Cabinet Member, the Council or one of its committees or sub-committees.

D.4213 No contract, agreement or other document shall be signed or sealed unless it gives effect to:

- i. a decision or resolution (in accordance with the Council's Constitution) of the Leader, the Cabinet, an authorised Cabinet Member or one of its committees or sub committees or
- ii. a decision by an officer exercising delegated powers

D.4314 Budgetary provision must exist before any contract can be entered into. This provision should be explicit in a budget approved by resolution of the Council. Where budgetary approval exists for a specific item further Member approval is not generally required.

D.4415 Where there is no specific budget line, the officer with delegated authority may approve expenditure up to £100,000 provided the expenditure can be met within budget. Above £100,000 a formal decision by the Leader, the Cabinet or an authorised Cabinet Member is required in accordance with the Council's Constitution.

### **Contract Management**

D.4516 Staff should refer to Spending the Council's Money for advice and guidance regarding contract management. [LINK](#)

### **Ex Gratia Payments**

D.4617 The Corporate Directors are responsible for approving reasonable ex gratia payments of £6,000 or less and for ensuring that a record of such payments is maintained.



D.1718 For ex gratia payments in excess of £6,000 the Corporate Directors are responsible for obtaining the approval of the relevant Cabinet Member, the Deputy Leader and Cabinet Member for Finance and Procurement and the Corporate Director of Finance and Procurement.

## Payments to employees and Members

D.1819 The Corporate Director of Finance and Procurement is responsible for:

- i. making arrangements for recording and for the accurate and timely payment of PAYE, Income Tax, National Insurance, and all other statutory and non-statutory payroll deductions;
- ii. ensuring the accurate and timely production of statutory returns to H.M. Revenue and Customs, particularly in respect of the financial year-end and the declaration of employee taxable benefits;
- iii. ensuring that there are adequate arrangements for administering pension matters on a day-to-day basis;

D.1920 The Corporate Director of Human Resources is responsible for arranging and controlling secure and reliable payment, on the due date, of salaries, compensation payments or other emoluments, staff expenses and Members' expenses and allowances, and pensions in accordance with procedures prescribed by him or her.

D.2021 The Corporate Directors are responsible for:

- i. ensuring that all appointments are made in accordance with the Council's regulations and approved establishments, grades and scales of pay.
- ii. ensuring that adequate budget provision exists for:
  - (a) all employee appointments
  - (b) all permanent and temporary variations relating to employee appointments
  - (c) all engagements of self-employed persons.

## Taxation

D.2122 The Corporate Director of Finance and Procurement is responsible for:

- i. maintaining the Council's tax records, making tax payments, receiving tax credits and submitting tax returns by their due date as appropriate;
- ii. advising Corporate Directors on all taxation issues that affect the Council in the light of relevant legislation as it applies and guidance issued by appropriate bodies.

D.2223 Where the Corporate Directors are owners of financial systems they are responsible for maintaining the appropriate records, making tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.

D.2324 The Corporate Directors are responsible for consulting with, and seeking advice from, the Corporate Director of Finance and Procurement on the potential tax implications of any new initiatives for the delivery of Council activity and Services, including those that could impact on our partial exemption.

## Trading accounts

- D.2425 The Corporate Director of Finance and Procurement is responsible for advising on the establishment and operation of trading accounts.
- D.2526 The Corporate Directors are responsible for:
- i. observing all statutory requirements in relation to trading activity, including the maintenance of a separate revenue account to which all relevant income is credited and all relevant expenditure, including overhead costs, is charged in accordance with the CIPFA Service Reporting Code of Practice;
  - ii. ensuring that the same accounting principles are applied in relation to trading accounts as for other services or business units;
  - iii. ensuring that each business unit prepares an annual business plan.

## Overheads and Internal Recharges

- D.2627 The Corporate Director of Finance and Procurement is responsible for:
- i. maintaining a system of delegating budgets to Directorates for support services;
  - ii. establishing a framework for the carrying out of overheads and internal recharges in accordance with laid down timetables;
  - iii. ensuring that the recipients are clear what each charge covers and provide sufficient information to enable them to challenge the approach being taken;
  - iv. arbitrating on disputed recharges where these cannot be satisfactorily resolved between Directorates;
  - v. ensuring that overheads and internal recharges for support services are in accordance with the CIPFA Service Reporting Code of Practice for both budget and final accounts purposes.
- D.2728 The Corporate Directors are responsible for:
- i. ensuring that budgets for the purchase and provision of internal services are agreed between purchaser and provider and properly reflected in annual budgets and business plans and budget monitoring statements;
  - ii. raising and/or processing recharges in accordance with the timescales laid down;
  - iii. notifying and/or responding to disputed recharges in accordance with the timescales laid down;
  - iv. monitoring the processing of recharges in accordance with the timetable agreed with the Corporate Director of Finance and Procurement.

## FINANCIAL REGULATION E – EXTERNAL ARRANGEMENTS

### Partnerships

- E.1 The Corporate Director of Finance and Procurement is responsible for:
- i. promoting the same high standards of conduct with regard to financial administration in partnerships that apply throughout the Council
  - ii. advising on the financial implications resulting from entering into partnership agreements including tax treatment, limitation of liability, valuation of transferred assets or the grant of a right to use existing assets and any other long term issues;
  - iii. advising on the terms of any payment and performance mechanism relating to partnerships entered into by the Council.
- E.2 The Corporate Directors are responsible for:
- i. ensuring that, when entering into partnerships, the Council's financial and operational interests are protected;
  - ii. ensuring that appropriate financial and legal advice is taken before entering into partnership agreements;
  - iii. ensuring that, before entering into partnership agreements with external bodies, a risk management appraisal is carried out and an exit strategy is in place where appropriate;
  - iv. ensuring that necessary approvals are obtained before negotiations are concluded in relation to partnership agreements;
  - v. ensuring that the accounting and financial arrangements for partnerships satisfy the requirements of the Council and allow for any required audit of the partnerships affairs.

More detailed guidance can be found in 'Risk Management of Key Partnerships – A guide to good practice', the management guide to alternative service delivery models [LINK](#) and the Companies' Protocol. [LINK](#)

### External funding

- E.3 The Corporate Director of Finance and Procurement is responsible for:
- i. ensuring that procedures are in place so that all the financial implications, including long term issues, resulting from entering into external funding agreements are identified;
  - ii. ensuring that all external funding agreed with external bodies is received and is properly recorded in the Council's accounts;
  - iii. maintaining a record of expected grants in liaison with the Corporate Directors;
  - iv. investigating ways of maximising grant income;
  - v. building in any agreed financial implications (e.g. matched funding) into the budget strategy;
  - vi. accounting for non-specific Government Grants received and receivable and submitting any required returns in respect of these.
- E.4 The Corporate Directors are responsible for:
- i. ensuring that external funding which is sought supports the Councils service priorities;

- ii. ensuring that any matched funding requirements relating to external funding agreements are identified and provided for in the budget prior to any external funding agreement being concluded;
- iii. ensuring that necessary approvals are obtained before external funding agreements are concluded;
- iv. ensuring that the conditions of external funding agreements and any statutory requirements are complied with;
- v. ensuring that expenditure met from external funding is properly incurred and recorded, that income is received at the appropriate time, returns are made by the specified dates, and that audit requirements of the funding body can be met;
- vi. maintaining a record of external funding agreements in place;
- vii. ensuring that any other expenditure associated with the grant (e.g. matching funding) is contained within the agreed Directorate budget;
- viii. accounting for specific Government Grants received and receivable in respect of services for which they are responsible and submitting any required returns in respect of these;
- ix. ensuring that all grants received are recorded in the central register, and in line with the 'corporate grant procedure'. **LINK**

### **Work for third parties**

E.5 The Corporate Director of Finance and Procurement is responsible for issuing any required guidance on the financial aspects of contracts with third parties and external bodies.

E.6 The Corporate Directors are responsible for:

- i. ensuring that work for third parties does not impact adversely on the services of the Council and that before entering into agreements a risk management appraisal has been carried out;
- ii. ensuring that guidance issued by the Corporate Director of Finance and Procurement is complied with and that all agreements and arrangements are properly documented.

E.7 The Leader or relevant Cabinet Member is responsible for approving the contractual arrangements for any work for third parties or external bodies where the contract value exceeds £200,000.

### **Companies**

E.8 In relation to companies that the Council has an interest, it is imperative that they are set up, managed and run according to rules of good governance so that risks are mitigated. The 'Protocol relating to companies in which KCC has an interest' establishes processes and provides additional controls to ensure such rules are in place.

E.9 Anyone within the Council intending to set up a company must first read both the 'Protocol relating to companies in which KCC has an interest' and the more detailed Local Authority Companies guidance document. Sanctions are in place for non compliance which can include disciplinary action. **LINK**

- E.10 The Corporate Director of Finance and Procurement is responsible for advising on the financial implications resulting from the creation of a company including tax treatment and accounting arrangements.
- E.11 The Director of Governance and Law is responsible for advising on the legal requirements and implications with respect to the creation and ongoing running of a company.
- E.12 The Corporate Directors are responsible for:
- i. ensuring that the 'Protocol relating to companies which KCC has an interest' and the more detailed Local Authority Companies guidance document is complied with;
  - ii. ensuring that legal and financial advice provided by the Director of Governance and Law and the Corporate Director of Finance and Procurement respectively are complied with. **LINK**

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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 – 27<sup>th</sup> April 2016

Subject: **External Audit – Audit Plans for Kent County Council and Kent Superannuation Fund 2015/16**

Classification: Unrestricted

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**Summary:** The attached plans set out the proposed work of Grant Thornton to enable them to give an audit opinion on the Council's 2015/16 financial statements including the Kent Superannuation Fund. It also incorporates update issues for the Committee.

## **FOR DECISION**

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### **Introduction and background**

1. Grant Thornton are required to provide the Committee (defined as “those charged with Governance” under International Standards of Auditing) with an audit plan covering proposed work in relation to the Council's financial statements (which includes the Kent Superannuation Fund). The reports attached set out the results of Grant Thornton's latest risk assessment in relation to their audit of the financial statements including the superannuation fund and provides information on:
  - The audit approach
  - Identification of risks that impact on the work that Grant Thornton propose
  - Result of progress and interim work including emerging issues and developments

### **Process**

2. The Kent County Council and Kent Superannuation Fund Audit Plan reports emphasise the respective responsibilities of the Auditors and Audited Body and set out the results of a risk assessment in relation to their opinion on the financial statements and the Council's arrangements for value for money.
3. Both reports set out the proposed timetable for the opinion audit, including reporting to Committee.

### **Recommendations**

4. Members of the Governance and Audit Committee are asked to:
  - Review the outcomes of Grant Thornton's updated risk assessment; and
  - Approve the audit plans for Kent County Council and Kent Superannuation Fund for 2015/16.

**Robert Patterson**  
**Head of Internal Audit**  
**03000 416554**

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# The Audit Plan for Kent County Council

**Year ending 31 March 2016**

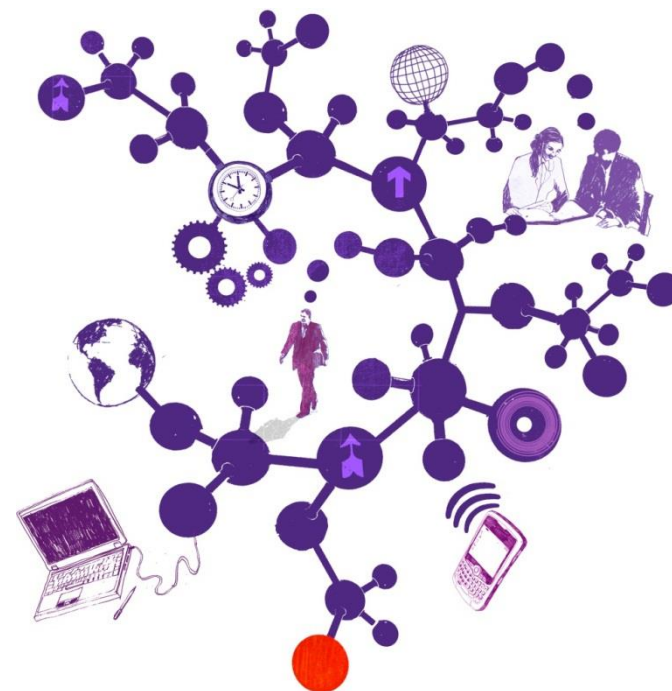
April 2016

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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 the Council 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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Dear Members of the Audit Committee

### **Audit Plan for Kent County Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Kent County Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Paul Hughes  
Engagement Lead

#### **Chartered Accountants**

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Understanding your business

Developments and other requirements relevant to the audit

Our audit approach

Significant risks identified

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Value for Money

Results of interim audit work

Key dates

Fees and independence

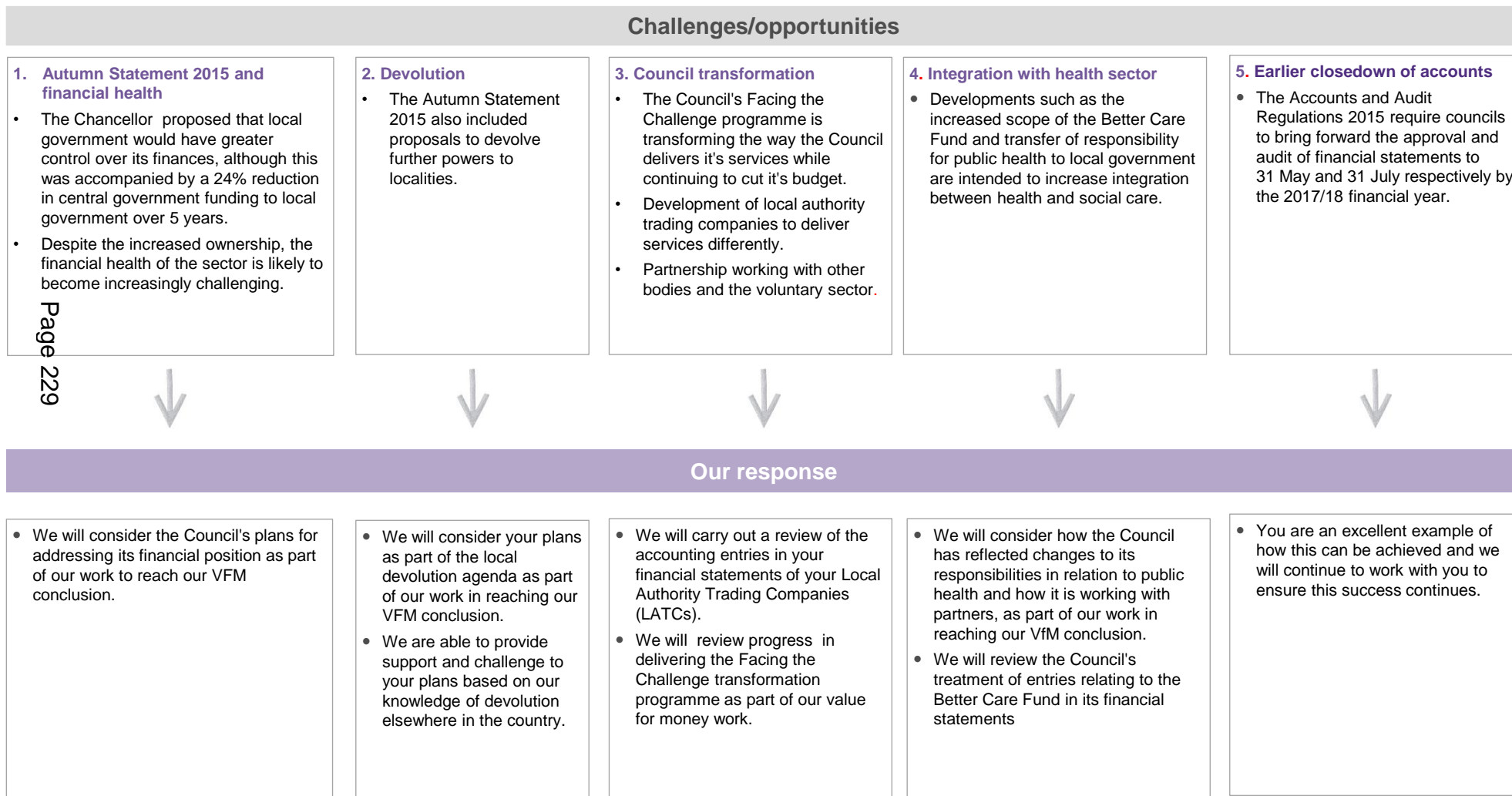
Communication of audit matters with those charged with governance

## Appendices

A. Action plan

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



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# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Highways Network Asset

- Although you are not required to include the Highways Network Asset until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

### 4. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion.



## Our response

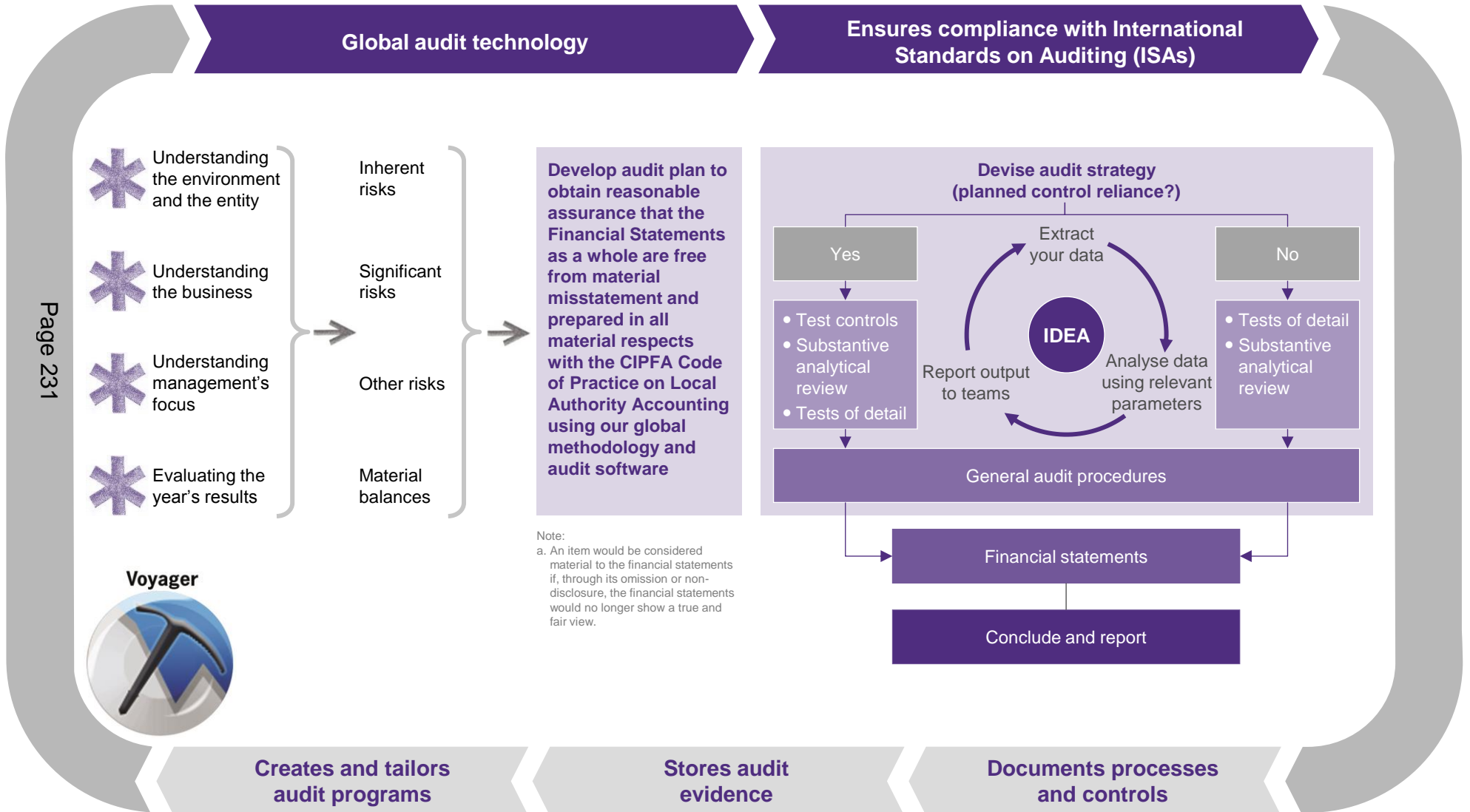
- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will carry out work on the WGA pack in accordance with requirements.

# Our audit approach



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Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

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# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £42,803k (being 2% of gross expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2,140k.



# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Kent County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition as the Council is predicting a year end surplus</li> <li>• opportunities to manipulate revenue recognition are very limited due to the nature of the majority of income being from central government grants</li> <li>• the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
<p>Management over-ride of controls</p>	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Discussions about the proposed accounting estimates, judgments and decisions made by management</li> <li>• Selections of month 1 – 9 journal entries made and shared with you to be tested in March</li> <li>• Obtained a breakdown of journal values by type to assess on which walkthroughs are required</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries for months 10-12 and closedown period</li> <li>• Walkthroughs of material journal entry streams</li> </ul>

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## Significant risks identified (continued)

We have also identified the following significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Substantive audit procedures
Valuation of Pension Fund Net Liability  Page 234	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability disclosures in the notes to the financial statements with the actuarial report from your actuary.</li> </ul>
Property, Plant and Equipment (PPE)	Revaluation measurements not correct (valuation)	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls (requested to perform at year-end)</li> <li>• Discussion with officers about the valuation approach in 2015/16</li> <li>• Review the reconciliation of the valuation report to the asset register and accounts</li> <li>• Perform assurance procedures over the work of the external valuation specialist as an expert</li> <li>• Consider any changes in the valuation of property, plant and equipment and investment properties and ensure these changes are appropriate and correctly accounted for in the disclosure notes</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures" (ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses  Page 235	Creditors related to core activities understated or not recorded in the correct period (Operating expenses understated / Completeness)	<b>Work completed to date:</b> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls</li> <li>• Sample testing of expenditure transactions from month 1 - 9</li> </ul> <b>Further work planned:</b> <ul style="list-style-type: none"> <li>• Testing of year-end creditors and cut off</li> <li>• Testing for unrecorded liabilities</li> <li>• Sample testing of expenditure transactions from months 10 - 12</li> </ul>
Employee remuneration  Page 235	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct / Completeness)	<b>Work completed to date:</b> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls</li> <li>• Selection of payroll records for testing for months 1 - 10</li> <li>• Agreement of payroll reports to ledger for months 1 – 10</li> <li>• Testing of exit packages for months 1 - 9</li> </ul> <b>Further work planned:</b> <ul style="list-style-type: none"> <li>• Testing of payroll records months 1 – 12</li> <li>• Testing of exit packages for months 10 - 12</li> <li>• Reconciliation of payroll costs per the payroll reports to the general ledger</li> <li>• Monthly trend analysis of the payroll expenditure</li> </ul>
Property, Plant and Equipment (PPE)	PPE activity not valid (valuation)	<b>Work planned:</b> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls (requested to perform at year-end)</li> <li>• Reconciliation of the relevant PPE notes to the fixed asset register</li> <li>• Verification of the capital programme to the additions recorded in the asset register in the financial year</li> </ul>

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# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Intangible assets
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> <li>Acting in the public interest, through demonstrating and applying the principles and values of good governance</li> <li>Understanding and using appropriate cost and performance information to support informed decision making and performance management</li> <li>Reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>Managing risks effectively and maintaining a sound system of internal control</li> </ul>
Sustainable resource deployment	<ul style="list-style-type: none"> <li>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>Managing assets effectively to support the delivery of strategic priorities</li> <li>Planning, organising and developing the workforce effectively to deliver strategic priorities.</li> </ul>
Working with partners and other third parties	<ul style="list-style-type: none"> <li>Working with third parties effectively to deliver strategic priorities</li> <li>Commissioning services effectively to support the delivery of strategic priorities</li> <li>Procuring supplies and services effectively to support the delivery of strategic priorities.</li> </ul>

---

# Value for Money (continued)

## Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

*A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.*

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

# Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks. The results of our VFM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter.

Significant risk	Link to sub-criteria	Work proposed to address
<p><b>Transformational Programmes</b> The Council is undertaking two extensive transformational programmes: Adults &amp; Children's social care and Facing the Challenge.</p> <p>Phase 1 of Facing the Challenge was successfully completed last year, however this remains a highly ambitious programme for the future vision of the Council. The plans are substantial and will require radical changes to the way in which the Council commission and deliver services.</p> <p>Projected savings have been incorporated into the medium term financial plan and there remains a risk that the programmes could slip and savings are not realised in line with the budgeted plans.</p>	<p>This links to your arrangements over informed decision making, managing assets and working with partners effectively to support the delivery of strategic priorities.</p>	<p>We will review the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We will review progress made and significant developments in year, and the overall outcomes and expectations from the programmes.</p>
<p><b>Medium Term Financial Plans</b> In line with many other authorities, the Council's medium term financial planning identifies significant budget shortfalls over the coming years. A balanced budget has been set for 2016/17, but this will require the delivery of substantial savings of £86.2m.</p> <p>With higher spending demands, changing demographics increasing demand on services and reductions in Central Government funding, the Council is predicting that annual savings of between £80m - £90m will be needed each year to balance the budget. For 2017/18, the Council is yet to identify over £50m of the savings needed.</p>	<p>This links to your arrangements over planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions, as well as understanding and using appropriate cost performance information to support informed decision making and performance management.</p>	<p>We will review your arrangements over medium term financial planning. This will include the reasonableness of significant assumptions around inflation, growth and savings.</p> <p>We will consider your plans to close the projected budget gap from 2017/18 to 2018/19, including identification of savings plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.</p>
<p><b>Health &amp; Social Care Integration</b> The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
<b>Review of information technology controls</b>	<ul style="list-style-type: none"> <li>• Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system.</li> </ul>	<p>On completion of this work we will report any significant issues arising in the Audit Findings Report.</p>

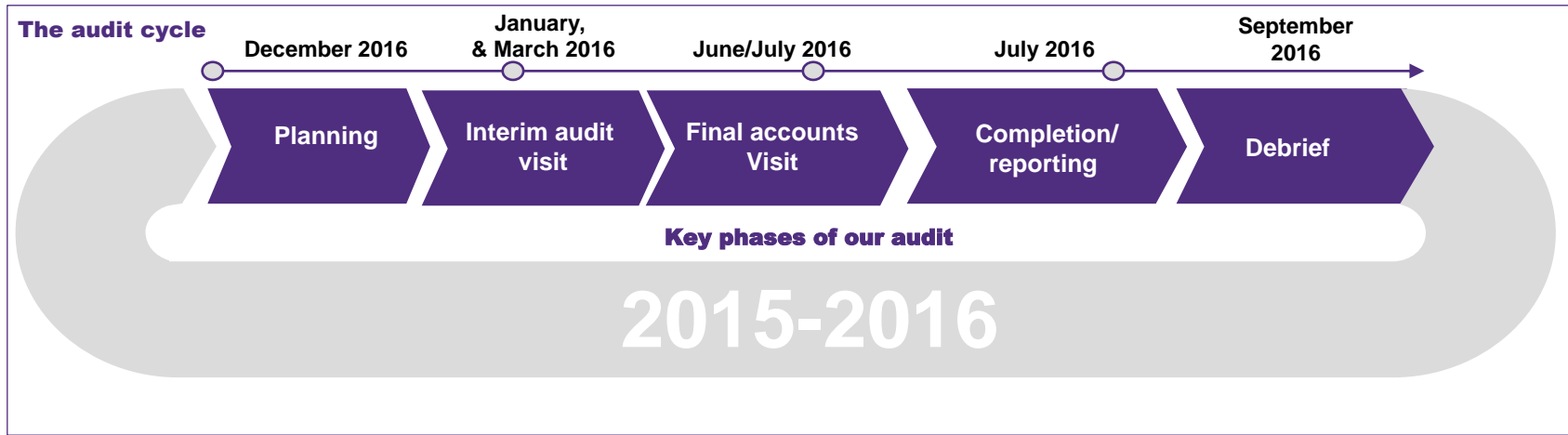
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## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. At the date of this report we have carried out walkthrough tests of operating expenses and employee remuneration.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>We plan to carry out the walkthrough test of the PPE system in early June.</p>
<b>Journal entry controls</b>	<p>We have obtained a breakdown by category of journal in terms of value in order to assess those categories that will require journal entry walkthroughs.</p> <p>We have made individual journal selections for the first 9 months.</p> <p>We have extracted unusual journals and based on this extraction no unusual journals have been identified to date.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<b>Early substantive testing</b>	<p>We have completed testing of exit packages from months 1 through 9.</p> <p>We have reconciled months 1 through 10 from the payroll reports to the general ledger.</p> <p>We have performed sample testing on Operating Expenditure as well as 'other' income for periods 1 through 9.</p>	<p>Our audit work has not identified any significant issues which we would like to bring to your attention.</p> <p>The outstanding work will be completed at the accounts audit visit.</p>

# Key dates



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Date	Activity
December 2016	Planning
January 2016 March 2016	Interim site visits
27 April 2016	Presentation of audit plan to Audit Committee
June 2016	Year end fieldwork
TBC	Audit findings clearance meeting with Corporate Director of Finance and Procurement
21 July 2016	Report audit findings to those charged with governance (Governance and Audit Committee)
21 July 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	155,925
<b>Total audit fees (excluding VAT)</b>	<b>155,925</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Independent auditor assurance reviews	<b>12,500</b>
• Advisory services	<b>20,900</b>
• Tax advice	<b>42,750</b>
<b>Non-audit services</b>	<b>76,150</b>

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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# The Audit Plan for Kent Superannuation Fund

Year ending 31 March 2016

27 April 2016

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**Emily Hill**

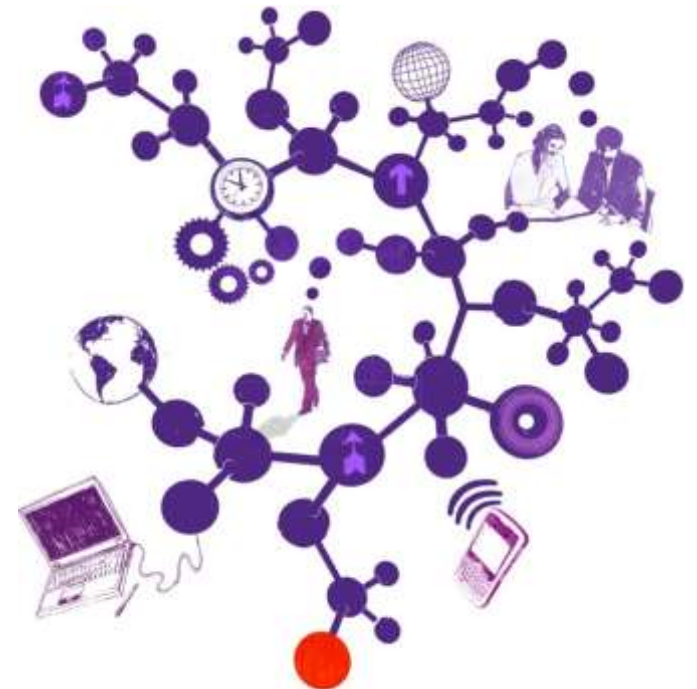
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The Governance and Audit Committee  
Kent County Council  
County Hall  
Maidstone  
Kent  
ME14 1XQ

27 April 2016

Dear Members of the Governance and Audit Committee

### **Audit Plan for Kent Superannuation Fund for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Kent Superannuation Fund, the Governance and Audit Committee) an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Audit Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Emily Hill  
Engagement Lead

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#### **Chartered Accountants**

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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 the Pension Fund 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.

# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Pooling of Investments

- As part of the 2015 budget the government has invited Local Government Pension Scheme (LGPS) administering authorities to submit proposals for investing their assets through pools of at least £25 billion to reduce investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals were submitted to DCLG in February with final plans to be agreed by 15 July 2016. You are part of the ACCESS group proposal.

### 2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

### 3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the LGPS.
- There remains a continued focus on the affordability, cost and management of the LGPS, and as such it remains critical that appropriate governance arrangements are in place for the Pension Fund.

### 4. Local Government Outsourcing

- As many Councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on LGPS funds need to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the Pension Fund.
- An increased number of admitted bodies may increase the risks for the Pension Fund in the event of those bodies failing. It is also likely to increase the administration costs of the scheme overall.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require fund's to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.
- Although your accounts sign off date is unaffected by this legislation, the increased time pressure it will put on all audits will require us to make our testing more efficient.

## Our response

- We will continue to discuss with officers plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the Pension Fund.

- We will discuss with officers plans to respond to these changes and consider the impact on the Pension Fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the Pension Fund.

- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We will look for ways to bring forward as much testing as possible into interim work, to reduce the impact of the additional time pressure on the audit.

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension Fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on-going compliance with the Code.

### 3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.



## Our response

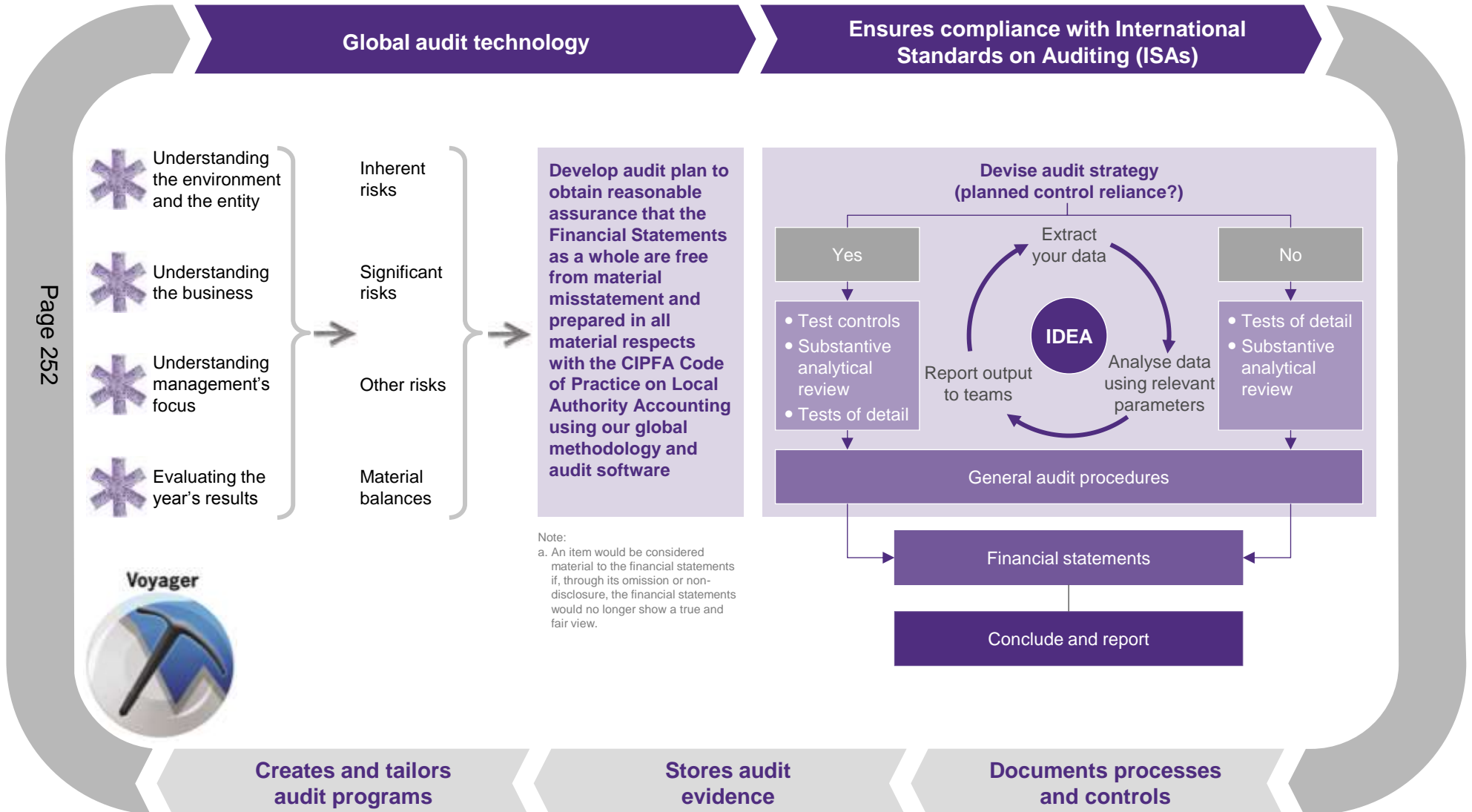
- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the Pension Fund has in place for the quality of its' membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the Pension Fund.

# Our audit approach



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Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA(UK&I)) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the Pension Fund. For purposes of planning the audit we have determined overall materiality to be £45,390k (being 1% of the net assets from the prior year audit accounts). We will consider whether this level is appropriate following receipt of the final accounts during the course of the audit. We will advise you if we revise this.

Under ISA(UK&I)450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2,269k.

ISA(UK&I)320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Pension Fund and the related party.
Cash and cash equivalents	The balance of cash and cash equivalents is usually material, and as the majority of your transactions affect the balance it is therefore considered to be material by nature also.	Any errors identified by testing in excess of £500k will be considered as to whether they would effect the users understanding of the financial statements.

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA(UK&I)315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under International Standards on Auditing (UK & Ireland) (ISA(UK&I)) which are listed below:

Significant risk	Description	Audit approach
The revenue cycle includes fraudulent transactions	<p>Under ISA(UK&amp;I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA(UK&amp;I)240 and the nature of the material revenue streams at Kent Superannuation Fund being contributions and investment income, we have determined that the risk of fraud arising from revenue recognition relating can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Pension Fund, fund managers and the custodian</li> <li>• the culture and ethical frameworks of local authorities, including Kent County Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	<p>Under ISA(UK&amp;I)240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Risk assessment of accounting estimates, judgements and decisions made by management</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Level 3 Investments – Valuation is incorrect	<p>Under ISA(UK&amp;I)315 significant risks often relate to significant non-routine transactions and judgmental matters.</p> <p>Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have performed walkthrough tests of the controls in place to estimate the valuation of these assets.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• For a sample of private equity investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period.</li> <li>• To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment purchases and sales	Investment activity not valid. Investment valuation not correct. (Valuation gross)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances.</li> <li>If required, we will perform substantive testing of purchases and sales incurred during the year and agree these to supporting documentation.</li> </ul>
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> <li>If required, we will test a sample of level 2 investments to independent pricing sources to provide assurance over the prices provided by the fund managers/custodian.</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed walkthrough tests of the controls identified in the cycle.</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over occurrence, completeness and accuracy of contributions</li> <li>Undertake a monthly trend analysis over the contributions received during the year to gain assurance over the completeness of contributions included within the accounts.</li> <li>Testing a sample of contributions to source data to gain assurance over their accuracy and occurrence, including contributions from Kent County Council co-ordinated with the Council's audit team as well as those from Admitted and Scheduled Bodies.</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.</li> </ul>

## Other risks identified (continued)

Other risks	Description	Audit approach
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have performed walkthrough tests of the controls identified in the cycle.</li> <li>• Interim controls testing over completeness, accuracy and occurrence of benefit payments.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Complete controls testing listed above to provide coverage for the full financial year.</li> <li>• Testing of a sample of individual pensions in payment by reference to member file.</li> <li>• Undertake a monthly trend analysis over the pension payments made during the year to gain assurance over the completeness of benefits paid included within the accounts.</li> <li>• We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have performed walkthrough tests of the controls identified in the cycle.</li> <li>• Sample testing of changes to member data for new member, leavers and new pensioners that occurred during the year to source documentation.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Controls testing over annual/monthly reconciliations and verifications with individual members</li> <li>• Complete sample testing of changes to member data for new member, leavers and new pensioners that occurred during the year to source documentation to provide coverage for the full financial year.</li> </ul>

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# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but subject to the year end balances/ values may include :

- Cash deposits
- Current assets
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits disclosures
- Financial Instrument disclosures

## Other audit responsibilities

- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will review the Pension Fund Annual Report and ensure that it is consistent with the Pension Fund accounts on which we give our opinion.

# Results of interim audit work

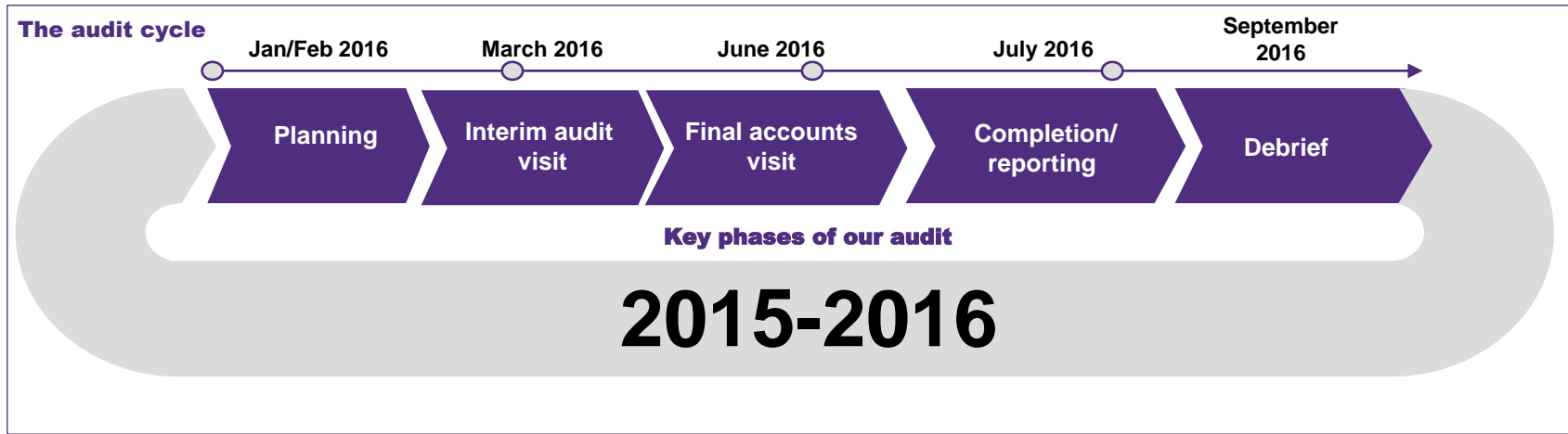
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on both the Administering Authority and the Pension Funds key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b> Page 258	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Pension Fund's financial statements.
<b>Review of information technology controls</b>	Our information systems specialist will perform a high level review of the general IT control environment of Kent County Council, as part of the overall review of the internal controls system.	On completion of this work we will report any significant issues arising in the Audit Findings Report.
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Pension Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Pension Fund in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.

## Results of interim audit work (continued)

	Work performed	Conclusion
Controls testing	<p>We performed testing of the operating effectiveness of key controls on those information systems where we had identified a reasonably possible risk of material misstatement to gain assurance about this and to reduce the amount of substantive testing performed on the financial statements. We have commenced testing on:</p> <ul style="list-style-type: none"> <li>- The controls for members data, including new starters, leavers and new pensioners. The testing on new pensioners also provided assurance on the controls for benefit payments.</li> <li>- We have rolled forward the testing on contribution controls from the previous year as permitted under auditing standards, as there have been no significant changes to the controls in place during the year.</li> </ul> <p>This work is currently being reviewed and we will update this section with details of all the work completed in the final version of the Plan.</p>	<p>Any findings from our work in this area will be updated in the final version of the Plan presented to the Governance and Audit Committee. Further testing will be performed at year end to ensure that we have obtained assurance that these controls were in operation for the whole of 2015-16.</p>

# Key dates



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<b>Date</b>	<b>Activity</b>
<b>January/February 2016</b>	Planning
<b>w/c 21 March 2016</b>	Interim site visit
<b>27 April 2016</b>	Presentation of audit plan to Governance and Audit Committee
<b>June 2016</b>	Year end fieldwork
<b>July 2016 (TBC)</b>	Audit findings clearance meeting with Director of Finance
<b>21 July 2016</b>	Report audit findings to those charged with governance (Governance and Audit Committee)
<b>21 July 2016</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
Pension Fund Scale Fee	30,568
<b>Total audit fees (excluding VAT)</b>	<b>30,568</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Pension Fund and its activities, have not changed significantly.
- The Pension Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	<b>Nil</b>
<b>Non-audit services</b>	<b>Nil</b>

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA(UK&I)) 260, as well as other ISA(UK&I)s, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<https://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Pension Fund's key risks when reaching our conclusions under the Code of Audit Practice.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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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 – 27<sup>th</sup> April 2016

Subject: **External Audit – Planned Audit Fee 2016/17**

Classification: Unrestricted

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**Summary:** This paper sets the scale and scope of external audit fees for 2016/17

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## **FOR ASSURANCE**

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### **Introduction and background**

1. Grant Thornton, as External Auditor to the Council, is required to report the scale fee and billing schedule for the Council as well as the audit of the Pension Fund. This includes work on auditing the financial statements through to value for money arrangements.
2. The scale fee has been influenced by procurement exercises run by the former Audit Commission such that the total fee for 2016/17 is estimated to be £155,925, which is the same fee as in 2015/16.

### **Recommendations**

3. Members of the Governance and Audit Committee are asked to note the planned audit fees for 2016/17

**Robert Patterson**  
**Head of Internal Audit (Ext: 416554)**

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# Grant Thornton

An instinct for growth™

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3 April 2016

Dear David

## **Planned audit fee for 2016/17**

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

## **Scale fee**

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2016/17, bar the adoption of new measurement requirements for the Highways Network Asset.

CIPFA/LASAAC is expected to confirm, subject to consultation, that the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom will adopt the measurement requirements of the CIPFA Code of Practice on Highways Network Asset.

PSAA have determined that there is no reliable and equitable way of establishing the volume of additional audit work, and therefore fees required, at each applicable local authority to gain assurance over the new financial reporting requirements. Therefore, fees for the additional work identified by auditors in 2016/17 will be subject to approval by PSAA under the normal fee variations process. PSAA expect that 'the additional fees for a highway authority will be in

### **Chartered Accountants**

Member firm within Grant Thornton International Ltd  
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A list of members is available from our registered office.

the range of £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use

PSAA have proposed that 2016/17 scale audit fees (excluding work completed on the Highways Network Asset) are set at the same level as the scale fees applicable for 2015/16. The Council's scale fee for 2016/17 has been set by PSAA at £155,925.

The audit planning process for 2016/17, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

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

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

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

As outlined above, the fee for any additional work in respect of the Highways Network Asset is not included in this fee.

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

### **Value for Money conclusion**

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

### **Pension Fund audit**

PSAA has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £30,568. Our work on the pension fund will be undertaken between March and June 2017 by our specialist pension fund audit team.

### Billing schedule

Fees will be billed as follows:

<b>Main Audit fee</b>	<b>£</b>
September 2016	38,981
December 2016	38,981
March 2017	38,981
June 2017	38,982
<b>Total</b>	<b>155,925</b>

<b>Pension Fund audit</b>	
March 2017	30,568

### Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2016 to March 2017. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June to July 2017 and work on the whole of government accounts return in July 2017.

<b>Phase of work</b>	<b>Timing</b>	<b>Outputs</b>	<b>Comments</b>
Audit planning and interim audit	December 2016 – March 2017	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June – July 2017	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January – July 2017	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	July 2017	Opinion on the WGA return	This work will be completed alongside the accounts audit.

Annual audit letter	October 2017	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.
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**Our team**

The key members of the audit team for 2016/17 are:

	Name	Phone Number	E-mail
Engagement Lead	Paul Hughes	0207 728 2256	<a href="mailto:paul.hughes@uk.gt.com">paul.hughes@uk.gt.com</a>
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Pensions In Charge Auditor	Keith Mungadzi	01293 554 135	<a href="mailto:keith.mungadzi@uk.gt.com">keith.mungadzi@uk.gt.com</a>

**Additional work**

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

**Quality assurance**

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

Yours sincerely

Paul Hughes

Engagement Lead

For Grant Thornton UK LLP

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 – 27<sup>th</sup> April 2016

Subject: **Fraud, Law and Regulations and Going Concern Considerations**

Classification: Unrestricted

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**Summary:** The attached questionnaire from Grant Thornton summarises management's responses to questions on the Council's processes in relation to fraud, law and regulations and going concern risks.

## **FOR DECISION**

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### **Introduction**

1. Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Governance and Audit Committee (G&AC). ISA (UK&I) emphasise the importance of two-way communication between the auditor and the G&AC and also specify matters that should be communicated.
2. This two way communication enables the auditor to obtain information relevant to the audit from the G&AC and supports the G&AC in fulfilling its responsibilities in relation to the financial reporting process.

### **Purpose of Report**

3. As part of Grant Thornton's risk assessment procedures they are required to obtain an understanding of management processes and the G&AC oversight of the following areas:
  - Fraud
  - Laws and regulations
  - Going concern
4. The attached report includes a series of questions on each of these areas and the response we have provided to Grant Thornton. Although incorporated into a Grant Thornton report and layout, these are responses from KCC management.
5. The G&AC should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## **Recommendation**

6. Members are asked to approve the management responses provided to Grant Thornton.

**Andy Wood**  
**Corporate Director of Finance and Procurement**  
03000 416854



# Informing the audit risk assessment for Kent County Council and Kent Pension Fund

Year ended 31 March 2016

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**Paul Hughes**

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**Nicholas White**

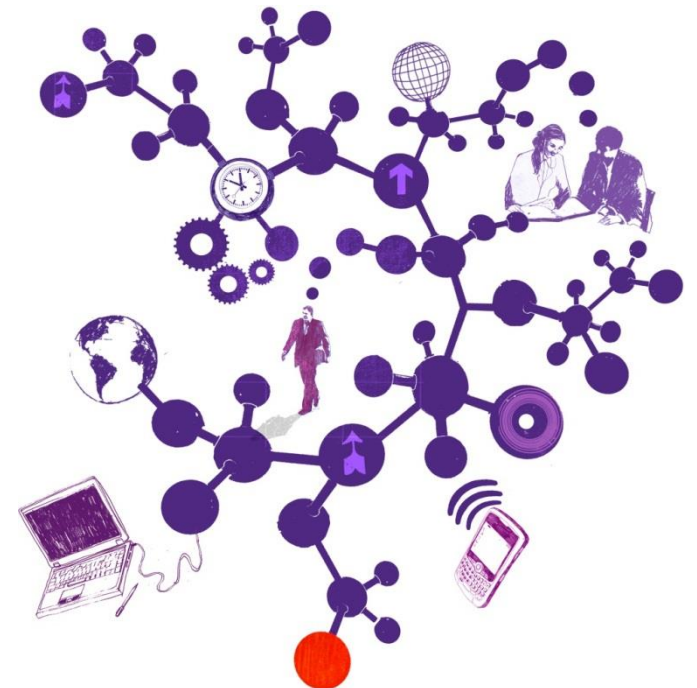
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Governance and Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

# Fraud

## Issue

### Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As an auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

# Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>The risk is minimal. Controls are in place through the budget setting, budget monitoring and year-end analytical review. We now have details on a business intelligence dashboard of cost centres per budget manager, A-Z lines and manager analysis enabling an easily accessible view at a detailed level allowing us to target and challenge any budget manager where we perceive there may be anomalies. We also have a regular balance sheet management review. Any variance from budget of £0.1m or more must be explained and validated. Significant changes from previous year's spend must also be explained.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has key policies and procedures in place which includes a code of conduct, whistleblowing, anti-fraud and corruption and anti-bribery.</p> <p>The council has a dedicated counter fraud team within internal audit who promote an anti-fraud culture. In 15/16 the fraud team continued to run fraud awareness courses and campaigns including providing advice to staff on what to do if they suspect fraud including how to report it.</p> <p>In addition, the team undertakes proactive reviews of areas that might be susceptible to fraud and recommends improvements in controls if weaknesses are identified. In 15/16 the Council commenced work on a DCLG funded Kent Intelligence Network involving data matching with other public bodies. This is due to come 'on line' in summer 2016</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>The council's whistleblowing arrangements continue to be effective and have been strengthened through on going fraud awareness courses and campaigns. This has resulted in a maintenance of detected fraud to the higher levels from previous years.. Where control weaknesses have been identified these have been addressed and the results reported to the Governance and Audit Committee.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively?  If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Generally internal controls are operating effectively. Where weaknesses have been identified these have been addressed by management. In addition, Corporate Directors will be required to submit their supporting statements for the Annual Governance Statement.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Yes, this is a risk applicable to any budget manager, as their performance against budget is a factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring and year end processes, as well as setting realistic budgets to start with. The creation of KCC Companies does increase risk but appropriate controls /governance are in place.</p>
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>For all significant areas of activity, we have the internal management controls of supervision, segregation of duties, exception reporting, as well as the independence of the Internal Audit team, along with the absolute independence of the Head of Audit.</p>

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# Fraud risk assessment

Question	Management response
<p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p> <p>What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How has the Council ensured that the Governance and Audit Committee are made aware of whistleblower tips or complaints?</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 279</p>	<p>The Committee has agreed and monitors the annual internal audit plan that provides assurance in relation to the management of the significant risks faced by the Council (including fraud risk), and also provides assurance on the risk management and governance frameworks put in place by management. This is reported via quarterly reports and an annual report that provides key themes of areas where internal control may need improving.</p> <p>The Committee has received quarterly progress reports from Internal Audit which includes details of frauds and irregularities and lapses or breaches of internal control. Grant Thornton has access to the same information through the published papers of the Committee. As such the Committee is provided with interim assurance and evidence on material fraud at each meeting</p> <p>There remain cases that are still subject to investigation which have yet to be reported. The Head of Internal Audit has provided assurance that the circumstances of these cases would not be considered significant, although until the investigations are complete this cannot be guaranteed. The Committee receives, requests and assesses ad-hoc and routine assurance reports on:</p> <ul style="list-style-type: none"> <li>• Complaints (including those referred to the Ombudsman)</li> <li>• Surveillance activities</li> <li>• Debt recovery and management</li> <li>• Treasury management</li> <li>• Insurance activities</li> </ul> <p>In July 2016, the Committee will be asked to review the Annual Governance Statement of the Council. This process will include consideration of the Council's ability to identify and manage risks and a consideration of the overall internal control environment. The Internal Audit team have a systematic process that captures all tip-offs, records action taken, and concludes with a report to the Governance &amp; Audit Committee.</p>
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The council has a suite of policies and processes in place to communicate and encourage ethical behaviour from its staff and contractors including (but not limited to) the:</p> <p>Kent Code</p> <p>Bribery Act Policy</p> <p>Anti-Fraud and Corruption Policy</p> <p>Whistleblowing policy</p> <p>These policies are available for all staff to view on Knet. They are signposted to new staff during their induction. There are also regular reminders issued via Kmail.</p> <p>In addition, the fraud team delivered on going fraud awareness courses and campaigns which promoted ethical behaviour.</p>

# Fraud risk assessment

Question	Management response
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>Staff are encouraged to report concerns of fraud through the council's policies and its management. The fraud team also encourage staff to report concerns through a programme of fraud awareness activity. The team also promotes and manages the whistleblowing helpline.</p> <p>In 2014/15 the fraud team delivered a fraud awareness campaign called 'Spot it, Stop it' which encouraged staff to report any concerns of fraud and wrongdoing.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	<p>No. Employees and Members are required to declare any conflicts of interests as well as any gifts and hospitalities. This is then checked against payments made, from and to any interested party.</p>
Are you aware of any instances of actual, suspected or alleged fraud, either within the Council as a whole or within specific departments since 1 April 2015?	<p>Yes. Management and the Governance and Audit Committee have been informed of a number of allegations. Any requiring investigation following preliminary enquiries, have been investigated. Some incidents have been referred to the Police or Trading Standards. A number of staff have been subject to disciplinary sanctions and members of the public have received cautions or warning letters.</p>

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# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Governance and Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Internal Audit, Democratic Services and Legal Services are always vigilant in ensuring compliance with laws and regulations. The Procurement team work closely with Directorates to ensure compliance with EU procurement laws.
How does management gain assurance that all relevant laws and regulations have been complied with?	As above, plus 1:1 supervision between managers and their direct reports, plus the Corporate Directors Annual Governance Statement, as well as external reviews e.g. OFSTED.
How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>The Governance and Law division is responsible for ensuring that the Council correctly applies the law and regulations governing its business. The department is led by the Director of Governance and Law, who is also the Council's Monitoring Officer and, as part of the process to support the Annual Governance Statement, has submitted a statement of assurance with regard to his statutory duties.</p> <p>The Director of Governance and Law attended all meetings of the Governance and Audit Committee, and would make the Committee aware of any significant possible instances of non-compliance with laws and regulations. In addition, the Head of Internal Audit would also report any known significant instances of non-compliance with laws and regulations. Internal Audit has reported on instances of non-compliance with relevant laws and regulations within their quarterly reports.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2015/16 financial statements?	None that we are aware of.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Chief Accountant liaises with Legal Services team to capture all potential claims. Legal estimate the potential 'loss' as best they can. This is then reported to this Committee through the Statement of Accounts in July.
Is there any actual or potential litigation or claims that would affect the financial statements?	Not at this stage, but this will be kept under review throughout the Closedown process
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

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# Going concern

## Issue

### Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

The consideration of the going concern assumption is becoming of greater relevance to local authority financial statements. All councils are facing significant pressures to balance future budgets as the funding from central government continues to reduce. There is a risk, particularly in smaller local authorities, that services will no longer be provided in the way they have historically been delivered. There is an increasing vulnerability of these bodies as a going concern.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

# Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	This assessment is carried out by the S151 officer on an ongoing basis but especially at the time of setting the budget and producing Final Accounts. The S151 officer also monitors the Council's cash position on a daily basis.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None in the short-medium term.
Has management reported on going concern to the Governance and Audit Committee? (if not, what arrangements are in place to report the going concern assessment to the Governance and Audit Committee?) <span style="writing-mode: vertical-rl; transform: rotate(180deg); position: absolute; left: -40px; top: 50%; font-size: small;">Page 284</span>	This is reported through the S151 officer certification within the Statement of Accounts, and through his Section 25 Assurance on County Council Budget day. The regular budget monitoring reports to Cabinet are also the opportunity to report any concerns.
Are the financial assumptions in that report (eg future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	N/A

# Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes, including in the Medium Term Financial Plan, and regular monitoring reports.</p>
<p>Have there been any significant issues raised with the Governance and Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>No.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>The Council is continually changing in line with its transformation agenda. This will undoubtedly result in a reducing number of senior managers. However, this is recognised and the risks are mitigated through effective training and succession planning.</p>



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By: Andy Wood, Corporate Director Finance & Procurement  
Geoff Wild, Director Governance & Law

To: Governance and Audit Committee - 27 April 2016

Subject: Protocol relating to companies in which KCC has an interest

Classification: Unrestricted

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Summary: The Committee is invited to approve a number of proposed minor amendments to the Protocol relating to companies in which KCC has an interest, (the Protocol) following an officer review and subsequent consideration by the Governance and Audit Committee Trading Activities Sub Committee on 27 April 2016.

## **FOR DECISION**

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### **INTRODUCTION**

1. Enclosed at **Appendix 1** is the Report on the Protocol considered by the Governance and Audit Committee Trading Activities Sub Committee on the morning of 27 April 2016.
2. The proposed minor amendments considered and supported by the Governance and Audit Committee Trading Activities Sub Committee are set down in paragraph 4 below.
3. An updated version of the Protocol showing in track changes the proposed minor amendments is enclosed at **Appendix 2**, which was also appended to the report to the Trading Activities Sub-Committee.

### **PROPOSED MINOR AMENDMENTS TO THE PROTOCOL**

4. It is proposed that a small number of amendments are made to the current Protocol. The reasoning behind the substantive changes is set out below. The numbering refers to the clause numbering in the Protocol:

2

- Reference is now made to the toolkit, which has been written since 2012 to inform officers of the options around creating an alternative service delivery model.
- It is now made clear that officers must take appropriate technical advice before a company is set up.
- Clause 2 has been reformatted but the key change is that any company set up cannot trade until the business case and governance arrangements have been

examined by the Governance and Audit Committee Trading Activities Sub-Committee.

4

- There may be occasions, especially in the case of a joint venture, where for commercial reasons the Council will not be able to insist on what is included in the articles of association. This clause has been amended to make it clear that it applies only if the Council has that control.
- The amendment to Clause 4(a) reflects the fact that there may be circumstances where it may not be appropriate to have Sessions House as the registered office, especially if the operational base of the company is not there. However, it is recommended that this is controlled carefully by requiring the approval of the Monitoring Officer and the Section 151 Officer before any alternative address is selected.

5(a)

- The governance structures for a number of companies owned by the Council incorporate a Shareholder Board with significant KCC officer and Member representation. It is recommended that such a Board, if there is one, should nominate who is appointed to represent the Council on the Board of Directors.

7(d)

- This clause has been simplified to make it clear that if a company decides to adopt its own policies it must, before it starts trading, give assurance to the Governance and Audit Committee Trading Activities Sub-Committee that adequate policies and procedures are in place.

9

- The existing Protocol is designed to be retrospective and to apply to companies already in existence, which may have been set up without all the safeguards in place as required by the Protocol. However, this may not always be possible and so it is suggested the words “so far as is reasonably practicable” are added.

11

- This clause has been updated to refer to the correct bodies and again it is suggested that this clause is only applicable where the Council has a controlling interest in the company.

## **RECOMMENDATION**



5. The Committee is invited to approve the proposed minor amendments to the Protocol relating to companies in which KCC has an interest, as set out in paragraph 4 above and incorporated in the updated version of the Protocol attached at **Appendix 2**.

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## Appendix 1

**From:** Andy Wood, Corporate Director Finance & Procurement  
Geoff Wild, Director Governance & Law

**To:** Governance and Audit Committee Trading Activities Sub-Committee – 27 April 2016

**Subject:** Protocol relating to companies in which KCC has an interest

**Classification:** Unrestricted

### **Previous and Future Pathways:**

- 1) Governance and Audit Committee Trading Activities Sub-Committee – 27 April 2016
- 2) Governance and Audit Committee – 27 April 2016.

**Electoral Division:** All

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**Summary:** To report on a review of the existing protocol relating to companies in which KCC has an interest (the Protocol)

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### **INTRODUCTION**

1. As the Council's Facing the Challenge programme progresses with a focus on commissioning outcomes, the use of alternative service delivery models may require the creation of more companies owned in whole or part by the Council.
2. This review has been undertaken to determine whether substantive updates and amendments are required to the Protocol to ensure that its terms continue to be appropriate, whilst ensuring that requisite controls and governance frameworks are in place in relation to how KCC companies are established and operated.
3. The review has been conducted by officers in Finance and Procurement and Governance and Law.
4. The Protocol was last reviewed by the Governance and Audit Committee Trading Activities Sub-Committee in July 2012.
5. Any comments about this review made by the Governance and Audit Committee Trading Activities Sub-Committee Members will be reported to the main Committee at its meeting later today.
6. A copy of the current version of the Protocol is attached as **Appendix A**, with recommended amendments shown using tracked changes.

## **PROPOSED AMENDMENTS**

7. It is proposed that a small number of amendments are made to the current Protocol. The reasoning behind the substantive changes are set out below. The numbering refers to the clause numbering in the Protocol:

2.

- Reference is now made to the toolkit, which has been written since 2012 to inform officers of the options around creating an alternative service delivery model.
- It is now made clear that officers must take appropriate technical advice before a company is set up.
- Clause 2 has been reformatted but the key change is that any company set up cannot trade until the business case and governance arrangements have been examined by the Governance and Audit Committee Trading Activities Sub-Committee.

4.

- There may be occasions, especially in the case of a joint venture, where for commercial reasons the Council will not be able to insist on what is included in the articles of association. This clause has been amended to make it clear that it applies only if the Council has that control.
- The amendment to Clause 4(a) reflects the fact that there may be circumstances where it may not be appropriate to have Sessions House as the registered office, especially if the operational base of the company is not there. However, it is recommended that this is controlled carefully by requiring the approval of the Monitoring Officer and the Section 151 Officer before any alternative address is selected.

5(a)

- The governance structures for a number of companies owned by the Council incorporate a Shareholder Board with significant KCC officer and Member representation. It is recommended that such a Board, if there is one, should nominate who is appointed to represent the Council on the Board of Directors.

7(d).

- This clause has been simplified to make it clear that if a company decides to adopt its own policies it must, before it starts trading, give assurance to the Governance and Audit Committee Trading Activities Sub-Committee that adequate policies and procedures are in place.

9.

- The existing Protocol is designed to be retrospective and to apply to companies already in existence, which may have been set up without all the safeguards in place as required by the Protocol. However, this may not always be possible and so it is suggested the words “so far as is reasonably practicable” are added.

11.

- This clause has been updated to refer to the correct bodies and again it is suggested that this clause is only applicable where the Council has a controlling interest in the company.

## **RECOMMENDATION**

8. It is recommended that Members

(a) consider the amendments detailed in Appendix A and recommend their acceptance to the Governance & Audit Committee and

(b) note that the Protocol and Guidance should continue to be reviewed bi-annually, unless fundamental changes (for example, legislative changes) necessitate a review during the intervening period.

## **Background Papers**

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## Protocol relating to companies in which KCC has an interest

1. In relation to companies in which the Council has an interest, it is imperative that they are set up, managed and run according to rules of good governance so that risks are mitigated. This Protocol aims to establish processes and provide additional controls to ensure such rules are in place.
  
2. Anyone within the Council intending to set up a company should refer to the [‘Guidance on Local Authority Companies’](#) document ~~on KNET~~ and the [MG11 Toolkit http://knet/ourcouncil/Pages/MG11-%20ASDM-toolkit.aspx](#) both on [KNET](#).
  - ~~Before the company is set up legal, financial and audit advice must be taken.~~
  - A robust business case must be provided which gives a cost benefit analysis, considers the accounting and tax implications for the Council and identifies any risks to the Council. ~~The business case must go through the Governance and Audit Committee Trading Activities Sub Committee who will examine this and make recommendations. In light of the recommendations the relevant Cabinet Member shall approve the company’s business case.~~
  - Where the company is intending to exercise the power to trade pursuant to section 95 of the Local Government Act 2003, the business case shall contain enough detail to satisfy the requirements of this Act and be similar to that required by the Council for major capital projects.
  - ~~Before the Company commences formal trading the business case and proposed governance arrangements must go through the Governance and Audit Committee Trading Activities Sub Committee who will examine these and make recommendations. In light of the recommendations the relevant Cabinet Committee/Cabinet Member shall approve the company’s business case.~~
  
3. This Protocol relates to the following companies:
  - (a) in the case of companies with issued share capital, those companies in which the Council's interest is more than 1% of the issued share capital, where those shares are held other than for solely investment purposes
  - (b) in the case of any company without shares, where the Council is a member
  - (c) any company of whatever sort in which the Council nominates one or more directors or itself is (or has the right to be) a company director
  
4. In the case of a company ~~formed or~~ controlled by the Council (or where the Council has, or can reasonably have, ~~input into~~ control over the wording of the Memorandum and Articles), the following provisions must appear in the company's Articles:
  - (a) The registered office of the company shall be specified as: Sessions House, County Hall, Maidstone, Kent ME14 1XQ (care of the Corporate

Director of Finance and Procurement~~);~~ unless otherwise authorised by the Monitoring Officer and the Section 151 Officer.

- (b) The relevant Corporate Director (~~or Managing Director~~) within whose remit the company's business lies shall be responsible for nominating any secretary for the company ~~from among his/her staff.~~ A register of all company secretaries will be maintained by the Section 151 Officer.
  - (c) Any Member or officer of the Council who is appointed as a director or secretary of that company shall not be appointed in their own private capacity but shall be appointed as a nominee of the Council, which shall have the power to remove and replace such director or secretary as it may see fit.
  - (d) It shall be the responsibility of the Council's representative on the board or the Corporate Director within whose remit the company's business lies to make whatever arrangements may be necessary to ensure the company makes a full annual report of its activities to the Cabinet within three months after the end of its financial year.
  - (e) No Member or officer of the Council who is appointed as a director or secretary of that company (or who represents the Council at any meeting of the company or of the board) shall receive any income from the company unless the Council's Corporate Director of Finance and Procurement so agrees in writing in advance. If any income is received by a Member or officer, it must be documented in the relevant Register of Interests and published on the Council's website.
5. In respect of any company to which this Protocol applies the following rules shall also apply (even if not included in the company's Articles):
- (a) Any director of the company who is nominated by the Council (and any person authorised to represent the Council at a meeting of the company or of the board) shall be appointed by the Shareholder Board of the company or, if there is no such board, by the Cabinet or relevant Cabinet Member in accordance with the decision making procedures set out in the Council's Constitution.
  - (b) Any person authorised to represent the Council at a meeting of the company (where the Council is a member of the company) or of the board (where the Council is a director of the company) shall follow such directions as to the operation of the company as may be determined by the Cabinet or relevant Cabinet Member from time to time in accordance with the decision making procedures set out in the Council's Constitution.
  - (c) Directors nominated by the Council shall (so far as permitted by law and their duties to the company as directors) follow such directions as to the operation of the company as may be determined by the Cabinet or relevant Cabinet Member from time to time in accordance with the decision making procedures set out in the Council's Constitution.
  - (d) Members or officers representing the Council on any board shall only take decisions which are in accordance with the company's articles and any Council policies that are to apply to the company.



- (e) Where Members or officers of the Council incur expenses as a result of their involvement in the company, this shall be claimed by them from the company as the Council's Corporate Director of Finance and Procurement may direct.
6. In any situation where a Member or officer of the Council (or any member of their close family) is (in their private capacity) a member, director or secretary of a company of which the Council is also a member or director, or in respect of which the Council has the right to nominate one or more directors, then such Member or officer shall notify the Corporate Director of Finance and Procurement of this in writing as soon as they become aware of the same. These should be documented in the relevant Register of Interests or Statement of Related Party Transactions. The purpose of this is to prevent the company becoming a local authority company without the Council becoming aware of it.
7. The Council shall only become a member or director of a company following a decision of the Cabinet or relevant Cabinet Member taken in accordance with the decision making procedures set out in the Council's Constitution. When seeking such a decision any report to the Cabinet or relevant Cabinet Member shall state:
- (a) the Council's rights of membership and to nominate directors (or to itself become a corporate director)
  - (b) the purpose of the company and of the Council's involvement
  - (c) the ~~identity~~identities of the initial nominated directors and secretary and any person who is intended to be authorised to represent the Council at a meeting of the company (where the Council is a member of the company) or of the board (where the Council is a corporate director of the company)
  - (d) what Council policies (if any) are to apply to the company. ~~If no policies have been stated in the Member decision and the company directors do not formally set their own, the policies adopted should default automatically to KCC policies.~~ Where a company adopts its own policies, before it commences trading assurance must be provided to the Governance and Audit Committee Trading Activities Sub Committee that adequate policies and procedures are in place, with particular reference to anti-fraud ~~and, bribery, corruption, gifts and hospitality.~~
  - (e) that appropriate due diligence has been completed which must include an evaluation of the background, experience and reputation of the company and/or the proposed and existing directors
  - (f) any other limits the Councils' Corporate Director of Finance and Procurement or Monitoring Officer recommend be placed on the activities of the company.
8. Once the decision process to establish the company is completed, the company shall be formed and the Council Members and officers involved with the company shall ensure (so far as it is within their remit) that the relevant policies are applied by the company.
9. This Protocol shall (so far as is reasonably practicable) also apply to companies already in existence and as regards such companies:

- (a) a decision dealing with all the relevant matters set out in this Protocol is to be taken under the decision making procedures set out in the Council's Constitution by Cabinet or the relevant Cabinet Member as soon as reasonably practicable, and
  - (b) the Articles to such companies shall (where appropriate and reasonably practicable) be amended as soon as possible.
10. Both as regards companies already in existence and companies yet to be formed, all Members and officers of the Council should, from the date of adoption of this Protocol, act (so far as is reasonably practicable) as if the Articles had already been amended as required by this Protocol, whether or not this has in fact happened.
11. Companies in which KCC has ~~ana controlling~~ interest must pass a resolution of the company to provide KCC Internal Audit with all information and explanations (in the specified format) required to perform internal audits of the companies and participate in the ~~Audit Commission's (or successor body's)~~ Cabinet Office National Fraud Initiative data matching exercise. In addition, the Members and officers of the Council who are running KCC companies must seek appropriate advice from time to time to ensure that:
- (a) they and the company are operating within the law, specifically where they intend to change or expand the business activities of the company
  - (b) they are aware of the extent of their potential personal liabilities, conflicts of interest and any indemnities or insurance cover provided by KCC that may apply to them.
- ~~12. KCC Legal Services and KCC Finance between them have produced 'Guidance on Local Authority Companies' that covers these issues in detail and will update and expand this as necessary from time to time.~~
- ~~13.~~ 12. In order that Members and officers of the Council can be fully aware at all times of the extent of KCC's interests in local authority companies and their exposure to potential legal, financial and reputational risks, the Corporate Director of Finance and Procurement shall maintain an accurate, complete and up-to-date record of all companies in which KCC has an interest, clearly identifying those that are trading. Members and officers of the Council are required to supply timely information to the Corporate Director of Finance and Procurement so as to ensure that these records can be fully and properly maintained.
- ~~14.~~ 13. Pursuant to Part II of the Local Authorities (Companies) Order 1995, where a company is regulated by KCC (i.e. KCC either controls or has serious influence over it) then the company must:
- (a) provide any Member of the eCouncil who requests it such information as that Member reasonably requires for the proper discharge of their duties (but not so as to require breach of any law or of any obligation to a third party)
  - (b) (**only** if it is a KCC controlled company) before it first appoints any person as auditor of the company obtain the Public Sector ~~Audit Commission's (or successor body's)~~ Appointments Ltd consent to the appointment of that person.

Note (i) A Controlled Company is a company (a) which is a subsidiary of a Local Authority or (b) in which a Local Authority controls the majority of votes at a general meeting or (c) in which a Local Authority has the power to appoint/remove a majority of the Board or (d) which is under the control of another company which is itself a controlled company.

(ii) An Influenced Company is a company (a) in which a person associated with a Local Authority controls 20% or more of the votes at a general meeting or (b) in which 20% or more of the directors are persons associated with a Local Authority (i.e. employees and members) or (c) in which 20% or more of the voting rights at Board meetings are held by persons associated with a Local Authority.

4514. Members and officers representing the Council on the board of any company will at all times comply as appropriate with the County Council's Code of Member Conduct and the Officers Code of Conduct as set out in the Constitution from time to time.

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For information only

15. Under Appendix 2 Part 2 of the Council's Constitution, the Selection and Member Services Committee is responsible (inter alia) for "making appointments and nominations on behalf of the Council to serve on outside bodies (except those needing to be made by the Leader in connection with a delegation by him of his functions, the list of those appointments to be agreed between the Leader and the Committee from time to time)". Where a decision to appoint rests with the Leader, then the formal decision of the Cabinet or relevant Cabinet Member under paragraph 6 of this Protocol shall act as such appointment. Where the decision rests with the Selection and Member Services Committee, then such appointment shall not take effect unless and until the Committee has resolved to make such appointment.

4716. Company directors' duties are codified in Companies Act 2006. There are seven specific duties:

- (a) to act within powers
- (b) to promote the success of the company
- (c) to exercise independent judgement
- (d) to exercise reasonable skill and care
- (e) to avoid conflicts
- (f) not to accept benefits from third parties
- (g) to declare any interest in a proposed transaction

4817. As a matter of general principle, the overriding duty of any director in considering an item before the company is to vote in accordance with the interests of that company. In the case of a director who is also an elected Member, or an officer of KCC, this might give rise to a conflict with the interests of KCC.

4918. Directors and company officers are responsible for keeping accounts and making relevant returns to the Registrar of Companies, and in addition are required to lodge a copy of the Companies House Annual Return (showing

directors and ownership) and a copy of each set of Statutory Accounts submitted to Companies House with KCC Legal Services and KCC Finance.

**2019.** Elected Members and council officers are under a specific obligation (under the Local Authorities (Companies) Order 1995) to report back to the council through the Trading Activities Sub Committee on their involvement in outside companies to which they have been nominated by KCC. Any changes to companies' structure should also be reported to this Sub Committee.

**2120.** Various breaches of obligation can lead to a director having personal liability or being disqualified from acting as a director. In particular, failure to declare an interest is a criminal offence.

**2221.** KCC's insurance arrangements do not provide an indemnity for Members and officers involved with outside bodies when they act:

- (a) solely on behalf of an outside body
- (b) outside their delegated powers, i.e. in a decision-making capacity rather than as advisors or observers
- (c) outside the authority's statutory powers

**23-22** Companies should purchase directors' and officers' liability insurance to protect their directors and officers against claims of negligence, breach of duty, trust, default, etc. Directors should liaise with the company to ensure that such a policy of insurance is maintained at all times, and covers the director as much as it can.

**2423.** KCC may exceptionally give a wider indemnity to specific members/officers where the council specifically requires that person to become a director for KCC business reasons. KCC would insist that such a wider indemnity only dealt with anything not covered by the company's insurance.

**2524.** More detail on indemnities and insurance can be found in the advice note "Members & Officers Indemnity" prepared by the Finance Unit to which reference should be made.

**2625.** There can be a tendency to assume that a new venture requires a new legal entity, and that therefore a new project should be commenced in a new company. This is not necessarily the case. There is a limited number of situations where a limited company might be appropriate, namely:

- (a) Where there is trading to be carried out under the provisions of section 95 of the Local Government Act 2003. Section 95 provides a specific power to trade but the Act says that such trading must be carried out through a limited company. It must be noted that not all trading by KCC is necessarily under the provisions of Section 95. There are other cases where trading can be carried on under other powers (and where therefore a limited company may not be needed). Examples of these other powers are:
  - i. Where what is being done is the provision of goods and/or services to another public body under the provisions of the Local Authorities (Goods and Services) Act 1970, whether a particular organisation is a public body for the purposes of that Act is specified in regulations.

ii. Where what is being done is incidental to the main function that is being carried out. An example of this might be a library occasionally selling books as part of a promotion of reading. This power will be fairly tightly interpreted. If the main purpose of the activity is to raise money that will not be considered incidental to the original function.

iii. Where what is being done is use of surplus capacity. An example might be a council landscape service having raised too many plants and selling off the surplus to the public. If the activity requires the taking on of additional staff or the procurement of new services or equipment then it will almost certainly not come within this category.

(b) Where for some other specific reason it is advised that a limited company be formed. Typically these reasons will include the wish to take the activity out of the mainstream of KCC activity – either so as to encourage external funding or involvement, or to permit employment of staff outside KCC’s usual terms and conditions for directly employed staff, e.g. Kent Top Temps.

2726. Whatever power is being used, and whether a company is being formed or not, care must be taken not to exceed the scope of activity permitted by such powers.

2827. More detail on companies generally can be found in the advice note “Local Authority Companies”– prepared by the Corporate Director of Finance and Procurement and the ~~Director of Governance and Law~~ Monitoring Officer to which reference should be made.

28...KCC Legal Services and KCC Finance between them have produced ‘Guidance on Local Authority Companies’ that covers these issues in detail and will update and expand this as necessary from time to time.

April- 2016

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