

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 6th October, 2016

10.30 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a training session for Members of the Committee on “Future trends and developments in internal audit and counter fraud” at 10.00 am.





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 6th October, 2016, at 10.30 am
Darent Room, Sessions House, County Hall,
Maidstone

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

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

Membership (15)

| | |
|-----------------------|---|
| Conservative (8) | Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr D L Brazier, Mr E E C Hotson, Mr A J King, MBE, Mr S C Manion, Mr R A Marsh and Mr J E Scholes |
| UKIP (3) | Mr C P D Hoare, Mr M Heale and Mr B Neaves |
| Labour (2) | Mr W Scobie and Mr D Smyth |
| Liberal Democrat (1): | Mr R H Bird |
| Independents (1): | Mr M E Whybrow |

Webcasting Notice

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UNRESTRICTED ITEMS

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

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

4. Minutes - 21 July 2016 (Pages 5 - 10)
5. Dates of meetings in early 2017
Wednesday, 25 January 2017
Tuesday, 11 April 2017
6. Committee Work and Member Development Programme (Pages 11 - 14)
7. KCC Insurance Overview (Pages 15 - 20)
8. Treasury Management Update (Pages 21 - 28)
9. External Audit Annual Letter 2015/16 (Pages 29 - 38)
10. External Audit Update October 2016 (Pages 39 - 50)
11. Internal Audit and Counter-Fraud Progress Report (Pages 51 - 100)
12. KCC Annual Customer Feedback Report 2015/16 (Pages 101 - 116)
13. Corporate Law and Assurance Team (Pages 117 - 122)
14. Other items which the Chairman decides are urgent

EXEMPT ITEMS

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

Benjamin Watts
General Counsel (Interim)
03000 416814

Wednesday, 28 September 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 Thursday, 21 July 2016.

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

ALSO PRESENT: Mr J D Simmonds, MBE

IN ATTENDANCE: Mr A Wood (Corporate Director Finance and Procurement), Mr G Wild (Director of Governance and Law), Ms A Mings (Treasury & Investments Manager), Mrs C Head (Head of Financial Management), Miss E Feakins (Chief Accountant), Ms L Payne (Corporate Accountant), Mr R Patterson (Head of Internal Audit), Ms S Buckland (Audit Manager), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager), Mr D Smith (Director of Economic Development), Ms J Ward (Regional Growth Fund Programme Manager), Ms Y King (Schools Financial Services Manager) and Mr A Tait (Democratic Services Officer)

ALSO PRESENT were Mr D Hughes, Mr N White and Mr M Dean from Grant Thornton UK LLP

UNRESTRICTED ITEMS

27. **Membership** (Item 2)

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

28. **Minutes** (Item 5)

RESOLVED that:-

- (a) the Minutes of the Committee meeting held on 27 April 2016 are correctly recorded and that they be signed by the Chairman; and
- (b) the draft Minutes of the meeting of the Trading Activities Sub-Committee held on 27 April 2016 be noted.

29. 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 July 2017.

30. External Audit Update July 2016
(Item 8)

(1) The Committee agreed to consider this item together with the External Audit Annual Findings Report and the External Audit Pensions Findings Annual Report ahead of the Draft Statement of Accounts.

(2) The Committee was provided with recent updates and information from the External Auditor, Grant Thornton UK, LLP.

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

31. External Audit Annual Findings Report 2015/16
(Item 9)

(1) The Audit Findings report had been circulated electronically to Members of the Committee prior to the meeting. Hard copies were tabled.

(2) Mr Paul Hughes from Grant Thornton UK, LLP presented the report including key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to the Committee in April 2016 together with the results of the work undertaken to assess the Council's arrangements to secure value for money. He confirmed that in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. He added that the audit had been completed ten days before the end of July 2016, making KCC one of the first audits to be completed.

(3) The Committee placed on record its congratulations and appreciation of the work of the Finance Team for producing accurate accounts earlier in the year than had ever been the case before.

(4) RESOLVED to:-

(a) note the adjustments that have been made to the accounts of the County Council;

(b) note the Audit Findings Report's conclusions on value for money and the Council's financial resilience; and

- (c) agree the draft management response to the action plan set out in Appendix A of the Audit Findings Report.

32. External Audit Pension Fund Audit Findings Report 2015/16
(Item 10)

(1) Mr M Dean from Grant Thornton LLP UK gave a report on the audit findings for the Kent Superannuation Fund. The report included the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to the Committee in April 2016.

(2) The Committee placed on record its congratulations and appreciation for those officers in the Pension Accounts Team who had produced the accounts in with such speed and accuracy.

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

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

33. Draft Statement of Accounts 2015/16
(Item 7)

(1) The Head of Financial Management introduced the draft Statement of Accounts for 2015-16. She drew attention to the achievement of everyone involved in preparing the draft Statement by 3 June 2016 despite the immense scope and complexity of the County Council's budget, noting that the deadline for 2016-17 had been brought forward to 31 May 2017.

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

(3) The Committee asked for an analysis of the agency staff earning over £50K to be sent to all its Members together with an explanation of the rising cost of County Cars.

(4) RESOLVED that:-

- (a) approval be given to the Statement of Accounts for 2015/16;
- (b) approval be given to the Letters of Representation; and
- (c) the recommendations made in the Annual Findings Report be noted.

34. Schools Audit Annual Report
(Item 11)

(1) The Schools Financial Services manager presented a report summarising the Schools Financial Services compliance programme and other activities undertaken during 2015/16 which enabled the Chief Finance Officer to certify that there was a system of audit for schools which gave adequate assurance over financial management standards in schools.

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

35. Internal Audit and Counter-Fraud Annual Report and Opinion for 2015/16
(Item 12)

(1) The Head of Internal Audit summarised the outputs of the Internal Audit and Counter Fraud work for 2015-16, which provided a substantial assurance opinion on the Council's systems of governance, risk management and internal control. He also provided comment on the performance of the Internal Audit and Counter Fraud Unit in delivering this work.

(2) The Committee discussed the reasons for the delay in getting the DCLG grant funded Kent Intelligence Network (KIN), involving all Districts in Kent, up and running. It expressed the strong wish that the system matching would go live by September 2016.

(3) RESOLVED that the Annual Report be noted for assurance.

36. Update on 2016/17 Savings Programme
(Item 13)

(1) The Revenue Budget Manager provided an update on the delivery of the 2016/17 savings target of £81m. She confirmed that the BRAG (Blue, Red, Amber, Green) rating would be integrated into the entire budget cycle and that the focus would not simply be on the Red category.

(2) RESOLVED that the latest BRAG position on the 2016/17 savings target of £81m be noted for assurance.

37. Treasury Management Annual Review 2015/16
(Item 14)

(1) The Treasury and Investments Manager introduced a report summarising Treasury Management activities in 2015/16.

(2) RESOLVED that approval be given to the report for submission to the County Council.

38. Debt Management

(Item 15)

(1) The Treasury Investments Manager introduced a report on the County Council's debt position.

(2) The Committee asked for future reports to give the actual figure for the value of sundry debt over six months old in addition to its total percentage of the annual debt.

(3) The Treasury Investments Manager agreed to write to all Members of the Committee with an explanation of the figures in the table at the end of paragraph 9 of the report (summary position for Sundry debt on 1 June 2016).

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

39. Update on Contracts and Tenders Standing Orders part of the Constitution

(Item 16)

(1) The Corporate Director of Finance and Procurement presented a report proposing changes and updates to the Contracts and Tenders Standing Orders.

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

40. Corporate Risk Register

(Item 17)

(1) The Committee received a six-monthly report on the Corporate Risk Register, including an overview of the changes since it had last been presented and an outline of the ongoing process of monitoring and review.

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

41. Update on the governance of the Discovery Park Technology Investment Fund

(Item 18)

(1) The Director of Economic Development provided an update on the governance of the Discovery Park Technology Investment Fund. He focussed on the legal advice on the robustness of the governance arrangements, as had been requested by the Trading Activities Sub-Committee. .

(2) RESOLVED that the governance arrangements of the Discovery Park Technology Investment Fund be ratified.

42. Future appointment of External Auditor
(Item 19)

(1) The Head of Internal Audit provided an update on the proposed procurement arrangements for appointing External Auditors at the conclusion of the 2017/18 audits.

(2) RESOLVED that the County Council be recommended to ratify the application for the PSAA to be specified as the sector led body if:-

(a) DCLG formally approves the application; and

(b) there is a satisfactory conclusion to the discussions on the issues set out in paragraph 3.2 of the report.

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

To: Governance and Audit Committee – 6th October 2016

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

Classification: Unrestricted

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

FOR DECISION

Introduction and background

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

Current Work Programme

3. Appendix 1 shows the latest programme of work for the Committee, up to October 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. It is good practice for the Committee to embrace a Member development programme through a series of pre-meeting briefings, focusing on areas that are of specific relevance to this Committee. This has been successfully implemented over the last few years.:
6. The following programme was agreed at the July 2016 meeting and the first of these topics was delivered today.

| Description | Timing |
|--|--------------|
| Future trends and developments in internal audit and counter fraud | October 2016 |
| Learning the lessons of governance failures. | January 2017 |

Recommendations

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

Robert Patterson
Head of Internal Audit (03000 416554)

Committee Work Programme

Appendix 1

| Category / Item | Owner | Oct - 16 | Jan - 17 | Apr - 17 | Jul - 17 | Oct - 17 |
|---|-------|--|----------|----------|----------|----------|
| Secretariat | | | | | | |
| Minutes of last meeting | AT | ✓ | ✓ | ✓ | ✓ | ✓ |
| Work Programme | RP | ✓ | ✓ | ✓ | ✓ | ✓ |
| Member Development Programme | RP | ✓ | ✓ | | | ✓ |
| | | | | | | |
| Risk Management and Internal Control | | | | | | |
| Corporate Risk Register | RH | | ✓ | | ✓ | |
| Review of the Risk Management Strategy, Policy and Programme | RH | | ✓ | | | |
| Report on Insurance and Risk Activity | NV | ✓ | | | | ✓ |
| Treasury Management quarterly report/six monthly review | NV | ✓ | ✓ | ✓ | | ✓ |
| Treasury Management Annual Review | NV | | | | ✓ | |
| Ombudsman Complaints | DC | ✓ | | | | |
| Annual Complaints & Customer Feedback Report | DC | ✓ | | | | ✓ |
| Update on Savings programme/transformation programme | AW/CJ | | ✓ | | ✓ | |
| Annual report on 'surveillance' activities carried out by KCC | MR | | | ✓ | | |
| | | | | | | |
| Corporate Governance | | | | | | |
| Update on development of management guides | DW | If significant changes to the approach or purpose of the management guides | | | | |
| Annual review of Terms of Reference of G & A | RP | | ✓ | | | |
| Debt Management | NV | | ✓ | | ✓ | |
| Annual review of the Council's Code of Corporate Governance | BW | If material changes to the code | | | | |
| Commercial Services Policies | AW | If informed of material changes to policies | | | | |
| | | | | | | |

| Category / Item | Owner | Oct - 16 | Jan - 17 | Apr - 17 | Jul - 17 | Oct - 17 |
|--|-------|----------|----------|----------|----------|----------|
| Internal Audit and Counter Fraud | | | | | | |
| Internal Audit and Counter Fraud Progress Report | RP | ✓ | ✓ | ✓ | | ✓ |
| Schools Audit Annual Report | RP | | | | ✓ | |
| Internal Audit and Counter Fraud Annual Report | RP | | | | ✓ | |
| Internal Audit Strategy and Annual Plan | RP | | | ✓ | | |
| Internal Audit Benchmarking Report | RP | ✓ | | | | ✓ |
| Review of the anti-fraud and corruption strategy (part of progress report) | RP | ✓ | | | ✓ | ✓ |
| Review of anti-money laundering Policy | RP | | ✓ | | | |
| | | | | | | |
| External Audit | | | | | | |
| External Audit Update | RP | ✓ | ✓ | ✓ | ✓ | ✓ |
| External Audit Findings Report/Value for Money and Annual Audit Letter | RP | ✓ | | | ✓ | ✓ |
| Pension Fund Audit Findings Report | RP | | | | ✓ | |
| External Audit Certification of Claims and Returns Report | RP | | | ✓ | | |
| Effectiveness of Internal and External Audit Liaison | RP | | ✓ | | | |
| External Audit Plan | RP | | | ✓ | | |
| External Audit Pension Fund Plan | RP | | | ✓ | | |
| External Audit Fee letter and / or procurement arrangements | RP | | ✓ | ✓ | | ✓ |
| External Audit Fraud, Law & Regulations & Going Concern Considerations | AW | | | ✓ | | |
| | | | | | | |
| Financial Reporting | | | | | | |
| Statement of Accounts & Annual Governance Statement | AW | | | | ✓ | |
| Revised Accounting Policies | CH | | | ✓ | | |
| Review of Financial Regulations | EF | | ✓ | ✓ | | |

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

To: Governance and Audit Committee – 6 October 2016

Subject: **KCC INSURANCE OVERVIEW**

Classification: Unrestricted

Summary: This paper provides a summary of insurance activity for the 2015/16 financial year and other points of interest.

FOR ASSURANCE

INTRODUCTION

1. The Council's insurance programme is extensive and designed to provide increased financial control of the risks flowing from the diverse nature of its activities undertaken to meet statutory duties, support general business functions as well as income generating operations.
2. This report provides a review of activity for the 2015/16 financial year and other points of interest.

INSURANCE PROGRAMME

3. The insurance programme, which covers all directorate operations and schools, is made up of a number of policies. The main policies purchased are Employers Liability, Public Liability, Property and Motor which, when combined, make up 89% of the annual expenditure on external insurance premiums.
4. Following a tender of the full insurance programme effective from 1 January 2016, Zurich Municipal was awarded the contract for the majority of covers on a 5 year Long Term Agreement. As advised in the previous report in October 2015, the hardening insurance market and the Council's claims experience (particularly in relation to liability claims) resulted in a substantial increase in overall premium. The total cost of all policies for 2016 was £4.27m, representing an increase of approximately £1m on 2015. This increase was exacerbated by the rise in insurance premium tax by HMRC from 6% to 9.5% in November 2015.

FUNDING OF INSURANCE PREMIUMS AND CLAIMS

5. Premiums and excess payments are met through the corporately managed Kent Insurance Fund (KIF), to which all directorates and LEA schools contribute in accordance with their risk profile and claims experience. As at 1 April 2016 the KIF had a fully funded committed balance of £13.67m to meet the values for outstanding liabilities.
6. The KIF is supported by the Insurance Reserve. As at 1 April 2016 this stood at £10.91m and is held to protect the Council against future unexpected insurance costs. These will include those associated with the unexpected increase in the cost or volume of claims particularly where previous insurers have ceased trading or invoked a scheme of arrangement requiring contribution to the cost of claims (see sections under Municipal Mutual Insurance and Independent Insurance Ltd).

INSURANCE CLAIMS

7. Below is a summary of activity relating to the four main insurance policies during 2015/16.

Employers Liability

8. The number of claims being received remains low with currently only 25 new claims recorded in the 2015/16 financial year. The decrease is likely to be due to the number of schools continuing to convert to academy status, the departure of Commercial Services and the enactment of the Enterprise & Regulatory Reform Act 2013. This Act provides greater protection for those employers who take their health and safety responsibilities seriously by tightening up on the legal threshold that has to be met in order to bring a claim. Kent County Council has a strong system of measures in place and has benefitted as a result.
9. No new claims of significant value have been received since April 2015. The highest value claim received is currently valued at £30k which is inclusive of legal costs. The main causes of claims remains as slips/trips/falls but there has been an increase in alleged hearing loss due to noise exposure.
10. The overall outstanding balance on all Employers Liability claims that are still open across all years is reserved at £1.69m (£800k KCC / £890k ZM), which is a slight increase since 2014/15.

Public Liability

11. A total of 1671 claims have been recorded against the 2015/16 financial year. Of these, approximately 90% were highway related.
12. To date £35k has been paid out for highway related damage claims. Vehicle damage pothole claims accounted for almost 80% of all highway related claims in this particular financial year. Liability has now been decided for the vast majority of these claims with just over 90% having been rejected.
13. 331 personal injury claims have been recorded against the 2015/16 year to date. £87,500 has been paid out on these claims thus far, but there is a remaining reserve of £3.5m for those that remain open.
14. The majority of all PL claims received are less than £10k in value, however a number of what are known as 'large loss' claims' with a value of £50k+ can also be expected. There are currently 88 £50k+ open claims which have a total reserved value of £16.4m on top of the £7.5m already paid out. £2.4m of this figure is reserved against the Kent Insurance Fund and the remaining £14m with the Council's insurer.
15. Since April 2015 20 such claims have been received of which 12 are highway related. These claims have a collective reserved value of £2.65m of which £1m has been set against the Kent Insurance Fund and £1.65m has been reserved for by the Council's insurer.

The five highest value claims received result from:

- Motorcyclist losing control due to alleged carriageway defect.
 - Special needs pupil slipping over on wet floor.
 - Motorcyclist losing control due to debris from defect.
 - Alleged failures in process by social services.
 - Claimant fell off bicycle due to pothole
16. There are in excess of 1100 open claims currently being processed across all years with an overall reserved value of £24.7m. Of this figure, £10.6m is reserved against the Kent Insurance Fund and £14.1m by insurers. Whilst most claims relate to events that occurred in the past five years there is a small number that could be described as historic.
 17. Included within this figure is a significant large loss claim that arose as result of a motorcyclist accident. This claim is reserved at £8m and a decision has recently been taken to concede liability on a 77.5% / 22.5% basis in the claimant's favour. Due to the complexities of the claimant's injury, compensation will be paid by way of 'periodic payments', which provide an amount on an annual basis (reviewed every year). The

Council's deductible for this claim is £50k so all payments above this level will be met by the insurer.

18. As a result of the number of high value highway related claims, Zurich Municipal Insurance carried out an audit of the Council's management of this area of activity in August 2015. The final report concluded that the Council has in place a comprehensive Highways Maintenance Strategy and did not identify any single area of weakness that could account for some of the more significant claims that have been received over the past 2-3 years. The outcome was essentially a finding that the Council had been unlucky and there was satisfaction that the liability claim repudiation rate sits amongst the best performing authorities in the country.

Property

19. During the 2015/16 financial year 224 claims were made against the property policy at an estimated total cost of £466k. School claims account for 60% of the claims received under this policy with the other 40% being made up from libraries, youth centres and working premises. The Council has paid £308k on claims to date, as all claims have fallen below the insurer deductible.

Motor

20. Due to a reduction in the number of vehicles being insured, the number of claims made against the motor policy continues to fall. 176 claims were recorded for the 2015/16 financial year with an estimated total cost of £220k. The Council has paid £185k on claims to date, as all claims have fallen below the insurer deductible.
21. Although the staff Lease Car Scheme was wound up in 2011 the last vehicle was not returned until May 2015. Whilst there were concerns that the Lease Car Fund set up to meet the cost of accident damage for this fleet might not meet its liabilities, the Fund is on track to close with a very minor loss largely due to the significant administration costs levied by Commercial Services.

MUNICIPAL MUTUAL INSURANCE

23. As previously reported the Municipal Mutual Insurance Company ceased writing business in 1992 and has ever since been operating in run-off. A solvent run-off has not been possible and as a result what is known as the 'Scheme of Arrangement' has been triggered which involves the clawing back of monies from past members of the mutual to meet the outstanding future costs of claims. The Council paid £600k in 2014 following a demand by the scheme administrator.

With significant numbers of claims for mesothelioma and abuse and a recent surge in noise-induced deafness claims, the company's position has continued to deteriorate and a further amount of £380k has recently been paid. An additional levy cannot be ruled out and funds have been retained for this eventuality.

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

INDEPENDENT INSURANCE LTD

25. The Council was insured with the above insurance company from 1992 to 1995 when it went into liquidation. Since then the Council has been paying claims that should have been met by the insurer. Details of all payments made have been lodged with the liquidators and a Scheme of Arrangement was agreed in July 2015 by PricewaterhouseCoopers with a view to reimbursing all creditors up to 15p in the pound owed. If successful, in excess of £40k might be recovered.

INSURANCE BROKER

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

RECOMMENDATION

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

Lee Manser
Insurance Manager
(03000 416428)

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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 – 6 October 2016

Subject: **TREASURY MANAGEMENT UPDATE**

Classification: Unrestricted

Summary: To report a summary of Treasury Management activity

FOR ASSURANCE

INTRODUCTION

1. This report covers Treasury Management activity for the 3 months to 30 June and updates on any significant developments since then.

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 2016-17 was approved by full Council on 11 February 2016.
4. The Authority has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

MONTHLY PERFORMANCE REPORT

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

INVESTMENT ACTIVITY

6. The Council's average investment balances to date have amounted to £334m, representing income received in advance of expenditure plus balances and reserves held. These balances are forecast to remain relatively stable over the coming months.
7. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles.

8. The referendum on the UK's future relationship with the EU and the slowdown in the Chinese economy were the dominant issues for financial markets in the 3 months to the end of June. Following the vote to leave the EU sterling exchange rates fell significantly, government bond yields also fell sharply while equity markets after an initial sharp fall recovered and finished the month on a high.
9. The repercussions of the vote were also particularly keenly felt in values of commercial and residential property. Commercial property fund managers including CCLA marked down their shares reflecting lower expected property valuations.
10. After the vote the Monetary Policy Committee (MPC) of the Bank of England sought to reassure markets and investors and on 4 August they decided to cut the base rate by 0.25% to 0.25%, to raise the stock of purchases of gilts to £435 billion from £375 billion, and to purchase £10 billion of corporate bonds.
11. The impact on UK banks and building societies of the uncertain economic environment is being carefully monitored by the offices and the Council's treasury advisors and Arlingclose's credit advice remains cautious. Duration limits for major UK banks and building societies were unchanged with Standard Chartered remaining suspended from the list.
12. In August returns on short-term unsecured bank investments fell as did interest rates on DMO term deposits (0.10% on 6 month deposits).
13. Security of capital has remained the Authority's main investment objective. Against a background of increasing uncertainty, the continuing risk of bail-in and continued low returns, it is the Council's aim to further diversify into more secure and/or higher yielding asset classes as set out in its Treasury Management Strategy Statement for 2016-17.
14. Details of the types of investments held at 30 June are shown in the table at paragraph 2.2 of appendix 1. At that date some 62% of KCC's cash was held in deposits with banks or money market funds and some 38% was invested in covered bonds, investment funds and equity which are not subject to bail-in risk.
15. From April through June the interest rate earned on the invested cash was 1.13% compared to the average 7 day LIBID rate of 0.36%.

STATEMENT OF INVESTMENTS

16. A statement of investments as at 2 September is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

BORROWING

17. At 30 June 2016 the Authority held £980.84m of loans, an increase of £1.3m from the balance as at 31 March 2016, as part of its strategy for funding previous years' capital programmes.

18. 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.
19. In June Barclays Bank advised KCC of their decision to cancel all the embedded options within their standard Lender's Option Borrower's Option loans. This converts the Barclays LOBOs, totalling £281.8m, into fixed rate loans.
20. Since the start of the current financial year the Council has received £4.3m of the funding agreed for the County's street lighting and expects to receive a total of £11.56m in 2016-17. KCC also expects to repay £32m of maturing PWLB loans by 31 March 2017
21. As a result of new borrowing the average interest rate payable on the Council's debt portfolio reduced to 5.193%.
22. 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.
23. 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.

TREASURY ADVISOR

24. KCC agreed a new 3 year contract with Arlingclose for treasury advisory services with effect from 1 August 2016.

RECOMMENDATION

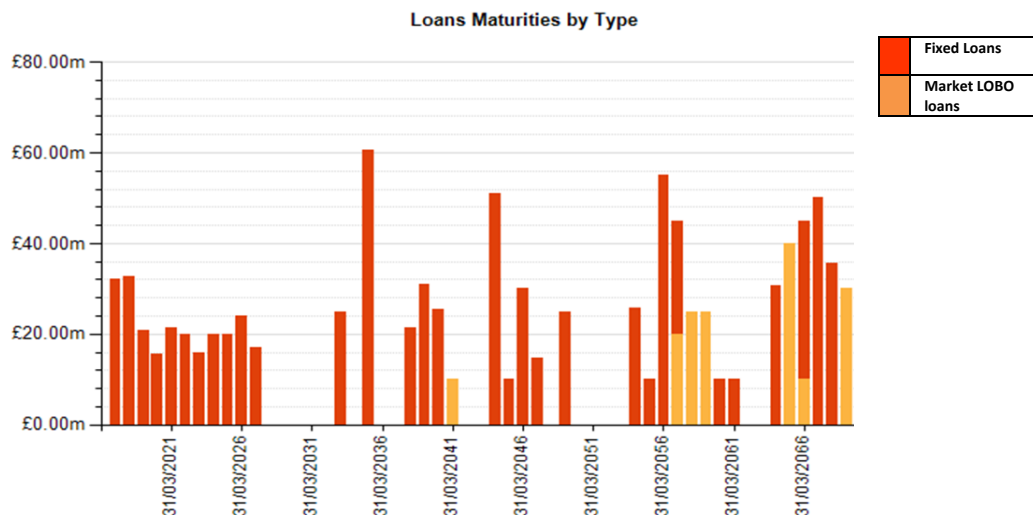
25. Members are asked to note this report for assurance.

Alison Mings
Treasury and Investments Manager
Ext: 03000 417488

Treasury Management Report for the month of June 2016

1. Long Term Borrowing

The Council's strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles. The total amount of debt outstanding at the end of June was £980.84m.



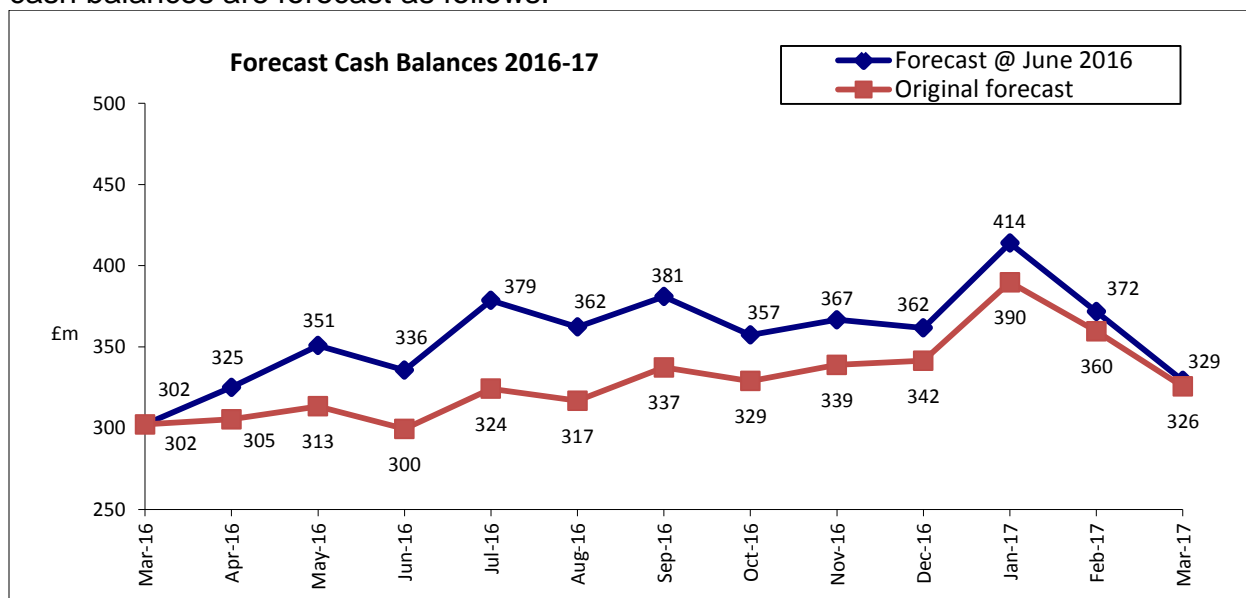
Total external debt managed by KCC includes £38.04m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of Further Education Funding Council (£0.54m), Magistrates Courts (£0.371m).

In June Barclays Bank informed KCC that they have cancelled all the embedded options within the £281.8m of LOBOs held by the Council. This effectively converts the Barclays LOBOs into fixed rate loans.

2. Investments

2.1 Cash Balances

During June the total value of cash under management decreased by £15m to £336m, £36m above the original forecast mainly due to higher than anticipated receipts. Future cash balances are forecast as follows:



2.2 Type of investment at month end

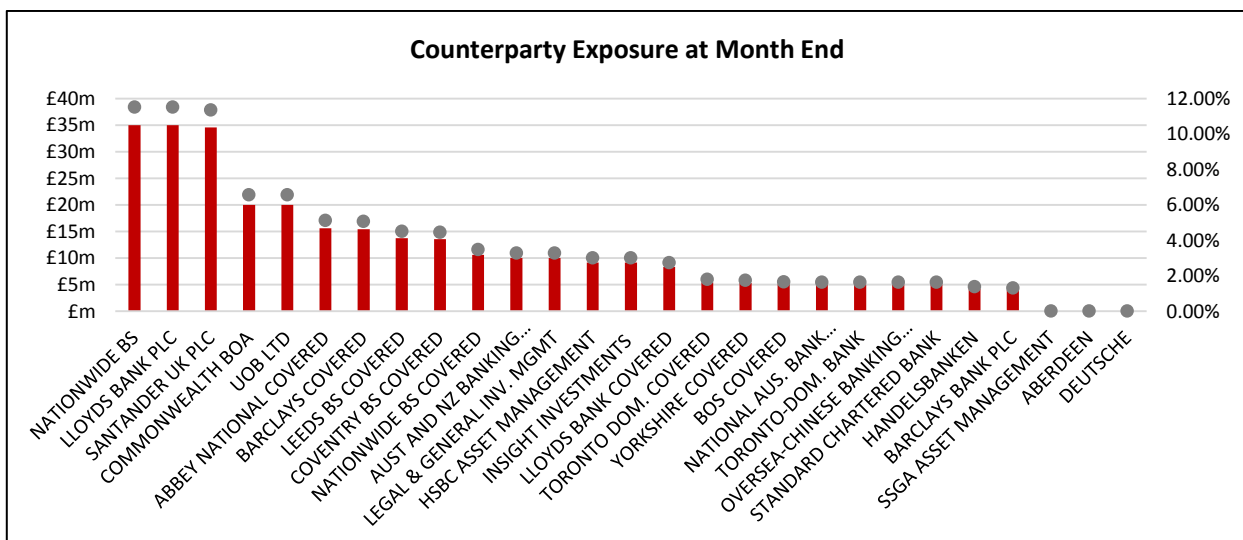
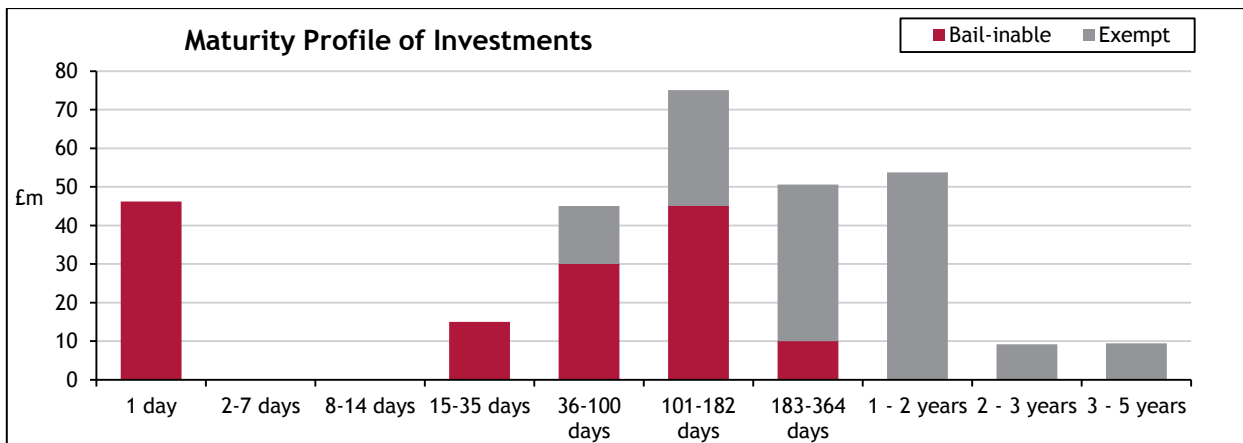
| Type of Investment | Total | |
|----------------------------------|---------------|---------------|
| | £m | % |
| Call Account | 17.75 | 5.20 |
| Money Market Fund | 28.48 | 8.35 |
| Notice Account | 25.00 | 7.33 |
| Certificate of Deposit | 10.00 | 2.93 |
| Fixed Deposit | 125.00 | 36.64 |
| Covered Bond | 97.97 | 28.71 |
| ISK held in Escrow | 3.28 | 0.96 |
| Icelandic Recoveries outstanding | 0.51 | 0.15 |
| Internally managed cash | 307.99 | 90.27 |
| External Investments | 31.07 | 9.11 |
| Equity | 2.14 | 0.63 |
| Total | 341.19 | 100.00 |

2.3 Internally managed cash

2.3.1 Average return on new investments

The rate of return on investments held at month end is 0.79% 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 |
|------------------------|---------------|-------------------|
| Value Weighted Average | AA | 3.45 |
| Time Weighted Average | AA+ | 1.94 |

3. External Investments

| | Book cost £000 | Market Value at 31 May 2016 £000 | 12 months return to 31 May 2016 |
|---------|-------------------|--|------------------------------------|
| CCLA | 25,000 | 25,948 | 5.40% |
| Pyrford | 5,000 | 5,119 | 1.65% |

Appendix 2 – Investments as at 2 September 2016

Internally Managed Investments

| Instrument Type | Counterparty | Principal Amount | Maturity Date | Interest Rate |
|-------------------------------|----------------|--------------------|---------------|---------------|
| Same Day Call Deposit | Barclays Bank | £1,000,000 | n/a | 0.35% |
| Same Day Call Deposit | Barclays FIBCA | £0 | n/a | 0.50% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 21/08/2017 | 1.00% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 30/09/2016 | 1.05% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 24/02/2001 | 0.80% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 24/07/2017 | 1.05% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 08/08/2017 | 1.00% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 09/02/2017 | 0.90% |
| Fixed Deposit | Lloyds Bank | £5,000,000 | 05/09/2016 | 1.00% |
| Call Deposits | Natwest SIBA | £0 | n/a | 0.25% |
| Call Deposits | Santander UK | £10,000,000 | n/a | 0.15% |
| 31 Day Call Notice Account | Santander UK | £5,000,000 | n/a | 0.40% |
| 60 Day Call Notice Account | Santander UK | £5,000,000 | n/a | 0.50% |
| 95 Day Call Notice Account | Santander UK | £5,000,000 | n/a | 0.65% |
| 120 Day Call Notice Account | Santander UK | £5,000,000 | n/a | 0.80% |
| 180 Day Call Notice Account | Santander UK | £5,000,000 | n/a | 0.90% |
| Total UK Bank Deposits | | £71,000,000 | | |

| | | | | |
|---|-----------------------------|--------------------|------------|-------|
| Fixed Deposit | Nationwide Building Society | £3,600,000 | 19/10/2016 | 0.71% |
| Fixed Deposit | Nationwide Building Society | £10,000,000 | 24/10/2016 | 0.68% |
| Fixed Deposit | Nationwide Building Society | £10,000,000 | 03/11/2016 | 0.71% |
| Fixed Deposit | Nationwide Building Society | £7,700,000 | 18/11/2016 | 0.71% |
| Fixed Deposit | Nationwide Building Society | £3,700,000 | 23/11/2016 | 0.71% |
| Total UK Building Society Deposits | | £35,000,000 | | |

| | | | | |
|-------------------------------------|-----------------------------|-------------------|------------|-------|
| Certificate of Deposit | Toronto-Dominion Bank Bonds | £5,000,000 | 10/02/2017 | 0.80% |
| Total Canadian Bank Deposits | | £5,000,000 | | |

| | | | | |
|--------------------------------------|-------------------------------|--------------------|------------|-------|
| Fixed Deposit | United Overseas Bank | £5,000,000 | 24/10/2016 | 0.62% |
| Fixed Deposit | United Overseas Bank | £10,000,000 | 10/02/2017 | 0.73% |
| Fixed Deposit | United Overseas Bank | £5,000,000 | 10/02/2017 | 0.70% |
| Fixed Deposit | Overseas Chinese Banking Corp | £5,000,000 | 10/02/2017 | 0.65% |
| Total Singapore Bank Deposits | | £25,000,000 | | |

| | | | | |
|---------------------------------------|---------------------------------|--------------------|------------|-------|
| Fixed Deposit | Common Wealth Bank Of Australia | £10,000,000 | 19/10/2016 | 0.65% |
| Fixed Deposit | Common Wealth Bank Of Australia | £10,000,000 | 10/11/2006 | 0.65% |
| Total Australian Bank Deposits | | £20,000,000 | | |

| | | | | |
|---------------------------------|----------------------------------|--------------------|-----|-----------------|
| Money Market Fund | Deutsche Managed Sterling Fund | £30,713 | n/a | 0.44 (variable) |
| Money Market Fund | HSBC Global Liquidity Fund | £9,961,068 | n/a | 0.46 (variable) |
| Money Market Fund | Insight Sterling Liquidity Fund | £2,847,203 | n/a | 0.47 (variable) |
| Money Market Fund | LGIM Liquidity Fund | £9,993,160 | n/a | 0.49 (variable) |
| Money Market Fund | SSgA GBP Liquidity Fund | £21,633 | n/a | 0.42 (variable) |
| Money Market Fund | Aberdeen Sterling Liquidity Fund | £9,968,896 | n/a | 0.43 (variable) |
| Total Money Market Funds | | £32,822,674 | | |

Covered Bond Portfolio

| Bond Type | Issuer | Adjusted Principal | Maturity Date | Net Yield |
|----------------------------|-----------------------------|---------------------|---------------|-----------|
| Fixed Rate Covered Bond | Bank of Scotland | £2,070,756 | 08/11/2016 | 1.291% |
| Fixed Rate Covered Bond | Bank of Scotland | £2,980,464 | 08/11/2016 | 1.340% |
| Fixed Rate Covered Bond | Coventry Building Society | £3,157,053 | 19/04/2018 | 1.931% |
| Fixed Rate Covered Bond | Coventry Building Society | £5,282,513 | 19/04/2018 | 1.726% |
| Fixed Rate Covered Bond | Coventry Building Society | £2,121,260 | 19/04/2018 | 1.524% |
| Fixed Rate Covered Bond | Leeds Building Society | £2,128,008 | 17/12/2018 | 2.029% |
| Fixed Rate Covered Bond | Leeds Building Society | £1,601,727 | 17/12/2018 | 1.192% |
| Fixed Rate Covered Bond | Yorkshire Building Society | £2,107,752 | 12/04/2018 | 1.976% |
| Fixed Rate Covered Bond | Yorkshire Building Society | £3,187,918 | 12/04/2018 | 1.545% |
| Floating Rate Covered Bond | Abbey National Treasury | £5,754,319 | 20/01/2017 | 0.820% |
| Floating Rate Covered Bond | Abbey National Treasury | £3,002,213 | 20/01/2017 | 0.714% |
| Floating Rate Covered Bond | Abbey National Treasury | £2,425,843 | 05/04/2017 | 0.776% |
| Floating Rate Covered Bond | Abbey National Treasury | £1,370,213 | 05/04/2017 | 0.716% |
| Floating Rate Covered Bond | Abbey National Treasury | £3,002,844 | 29/05/2018 | 0.787% |
| Floating Rate Covered Bond | Barclays Bank | £5,003,830 | 15/09/2017 | 0.693% |
| Floating Rate Covered Bond | Barclays Bank | £3,002,447 | 15/09/2017 | 0.685% |
| Floating Rate Covered Bond | Barclays Bank | £5,002,292 | 12/02/2018 | 0.721% |
| Floating Rate Covered Bond | Barclays Bank | £2,394,877 | 12/02/2018 | 0.781% |
| Floating Rate Covered Bond | Coventry Building Society | £3,007,783 | 17/03/2020 | 0.877% |
| Floating Rate Covered Bond | Leeds Building Society | £2,501,859 | 09/02/2018 | 0.784% |
| Floating Rate Covered Bond | Leeds Building Society | £2,501,888 | 09/02/2018 | 0.784% |
| Floating Rate Covered Bond | Leeds Building Society | £5,000,000 | 01/10/2019 | 0.967% |
| Floating Rate Covered Bond | Lloyds | £3,002,100 | 14/01/2017 | 0.806% |
| Floating Rate Covered Bond | Lloyds | £3,901,786 | 19/01/2018 | 0.721% |
| Floating Rate Covered Bond | Lloyds | £1,404,128 | 18/07/2019 | 0.758% |
| Floating Rate Covered Bond | Nationwide Building Society | £1,899,997 | 17/07/2017 | 0.769% |
| Floating Rate Covered Bond | Nationwide Building Society | £1,000,492 | 17/07/2017 | 0.719% |
| Floating Rate Covered Bond | Nationwide Building Society | £2,101,240 | 17/07/2017 | 0.709% |
| Floating Rate Covered Bond | Nationwide Building Society | £3,429,778 | 27/04/2018 | 0.740% |
| Floating Rate Covered Bond | Nationwide Building Society | £2,146,826 | 27/04/2018 | 0.771% |
| Floating Rate Covered Bond | Toronto Dominion | £5,457,077 | 01/02/2019 | 1.016% |
| Fixed Rate Covered Bond | Leeds Building Society | £5,851,747 | 17/12/2018 | 0.623% |
| Fixed Rate Covered Bond | Santander UK PLC | £3,615,957 | 14/04/2021 | 0.649% |
| Total Bonds | | £102,418,987 | | |

Iceland

| | | |
|------------------------------------|--------------------|-------------------|
| ISK held in Escrow at Islandsbanki | Glitnir | £3,148,798 |
| ISK held in Escrow at Islandsbanki | Landsbanki Islands | £129,629 |
| Total ISK held in Escrow | | £3,278,427 |

| | | |
|---|--------------------|-----------------|
| Icelandic Recoveries outstanding | Heritable Bank Ltd | £366,905 |
| Icelandic Recoveries outstanding | Landsbanki Islands | £139,649 |
| Total Icelandic Recoveries outstanding | | £506,554 |

| | |
|---------------------------------------|---------------------|
| Total Internally Managed Funds | £295,026,642 |
|---------------------------------------|---------------------|

Externally Managed Funds

| | |
|---|--------------------|
| CCLA LAMIT Property Fund | £25,000,000 |
| Pyrford Global Total Return (Sterling) Fund | £5,000,000 |
| Total Externally Managed Investments | £30,000,000 |

| | |
|--|-------------------|
| Kent PFI (Holdings) Ltd | £2,135,741 |
| Total UK Private Equity Holding | £2,135,741 |

| | |
|---------------------------------------|--------------------|
| Total Externally Managed Funds | £32,135,741 |
|---------------------------------------|--------------------|

| | |
|------------------------------------|---------------------|
| GRAND TOTAL OF ALL DEPOSITS | £327,162,382 |
|------------------------------------|---------------------|

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

To: Governance and Audit Committee – 6th October 2016

Subject: **External Audit – Annual Audit Letter 2015/16**

Classification: Unrestricted

Summary: The Annual Audit Letter provides a summary of the most important findings from the external audit work in respect of the 2015/16 audit year.

FOR ASSURANCE

Introduction

1. The former Audit Commission's Code of Audit Practice requires that the external auditors prepare an Annual Audit Letter (the Letter) and issue it to the Council. The purpose of the Letter is to communicate to the Council and its external stakeholders, including members of the public, the key issues arising which the Engagement Lead considers should be brought to the attention of the Council. The Letter covers the work carried out by the external auditor in respect of the 2015/16 audit year.
2. The Letter highlights any key issues drawn from reports previously presented to the Governance and Audit Committee and the auditors' conclusions on relevant aspects of the audit.

Summary of the letter

3. This Letter summarises the work from the External Auditor's 2015/16 Audit Plan and includes:
 - The audit opinion and financial statements
 - Value for money
4. The Letter reaffirms the unqualified opinion on the 2015/16 financial statements, including the Kent Pension Fund, and the unqualified value for money conclusion.

Publication of the letter

5. The Letter is addressed to all Members and the Engagement Lead requires that all Members receive a copy. There is also a statutory requirement to publish the letter. The Council will also publish the Letter on its website.

Recommendations

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

Robert Patterson
Head of Internal Audit (03000 416554)

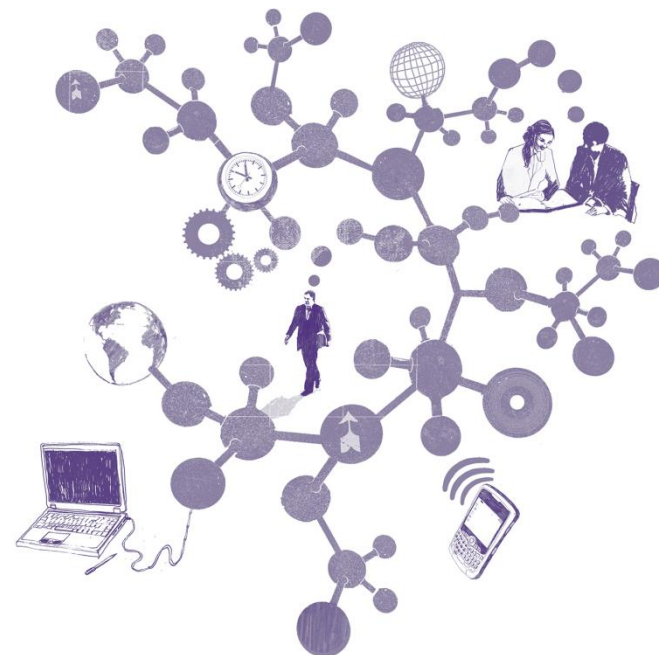
The Annual Audit Letter for Kent County Council

Year ended 31 March 2016

October 2016

Paul Hughes
Engagement Lead
T 0207 728 2256
E paul.hughes@uk.gt.com

Nicholas White
Senior Manager
T 0207 383 5100
E nicholas.j.white@uk.gt.com



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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Kent County Council ('the Council') for the year ended 31 March 2016.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued in April 2016 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

| | |
|---|--|
| Financial statements audit (including audit opinion) | <p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 21 July 2016 to the Governance and Audit Committee.</p> <p>We issued an unqualified opinion on the Council's 2015/16 financial statements on 21 July 2016, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p> |
| Value for Money (VfM) conclusion | <p>We issued an unqualified VfM conclusion for 2015/16 on 21 July 2016.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.</p> |

Key messages continued

| | |
|------------------------------|---|
| Whole of Government Accounts | We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is planned for September 2016 and the audit certificate will be issued after we have audited the WGA consolidation pack. |
| Other statutory duties | We are currently dealing with an objection to the financial statements , upon the closure of these matters we will issue our audit certificate. |
| Audit fee | Our fee for 2015/16 was £155,925, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B. |

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2015/16 audit.

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|---------------------|---|
| 1 | A review of the schools salaries bank reconciliation found that there were reconciling items dating back to 2011/12 amounting to £159,483. Reconciling items should be investigated and cleared on a timely basis. | Medium | Agreed | Immediate and responsibility of BSC Operational Service Manager |
| 2 | All open orders should be reviewed on a regular (or at least annual) basis to ensure that if final invoice has been received and resolved, remaining amounts are closed down. This will ensure remaining expense/accrual is not incorrectly included. | Low | Agreed | Immediate and responsibility of Head of Procurement |

Appendix B: Reports issued and fees

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

Fees

| | Per Audit plan £ | Actual fees £ |
|-------------------------|---------------------|------------------|
| Council audit | 155,925 | 155,925 |
| Other Statutory powers | TBC | TBC |
| Total audit fees | TBC | TBC |

Fees for other services

| Service | Fees £ |
|---|---------------|
| Audit related services: | |
| • Independent auditor assurance reviews | 12,500 |
| • Advisory services | 20,900 |
| • Tax advice | 42,750 |
| Non-audit services | 76,150 |

Reports issued

| Report | Date issued |
|-----------------------|--------------|
| Audit Plan | April 2016 |
| Audit Findings Report | July 2016 |
| Annual Audit Letter | October 2016 |



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

To: Governance and Audit Committee – 6th October 2016

Subject: **External Audit Update October 2016**

Classification: Unrestricted

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

FOR ASSURANCE

Introduction and background

1. In order that the Governance and Audit Committee is kept up to date with the work of Grant Thornton UK LLP, progress reports are written by the external auditor as appropriate.
2. The attached report covers the following areas:
 - Progress for 2016/17
 - Emerging issues and developments

Recommendation

3. Members are asked to note the report.

Robert Patterson
Head of Internal Audit (03000 416554)

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Audit and Governance Committee Kent County Council Progress Report and Update Year ended 31 March 2017

6 October 2016

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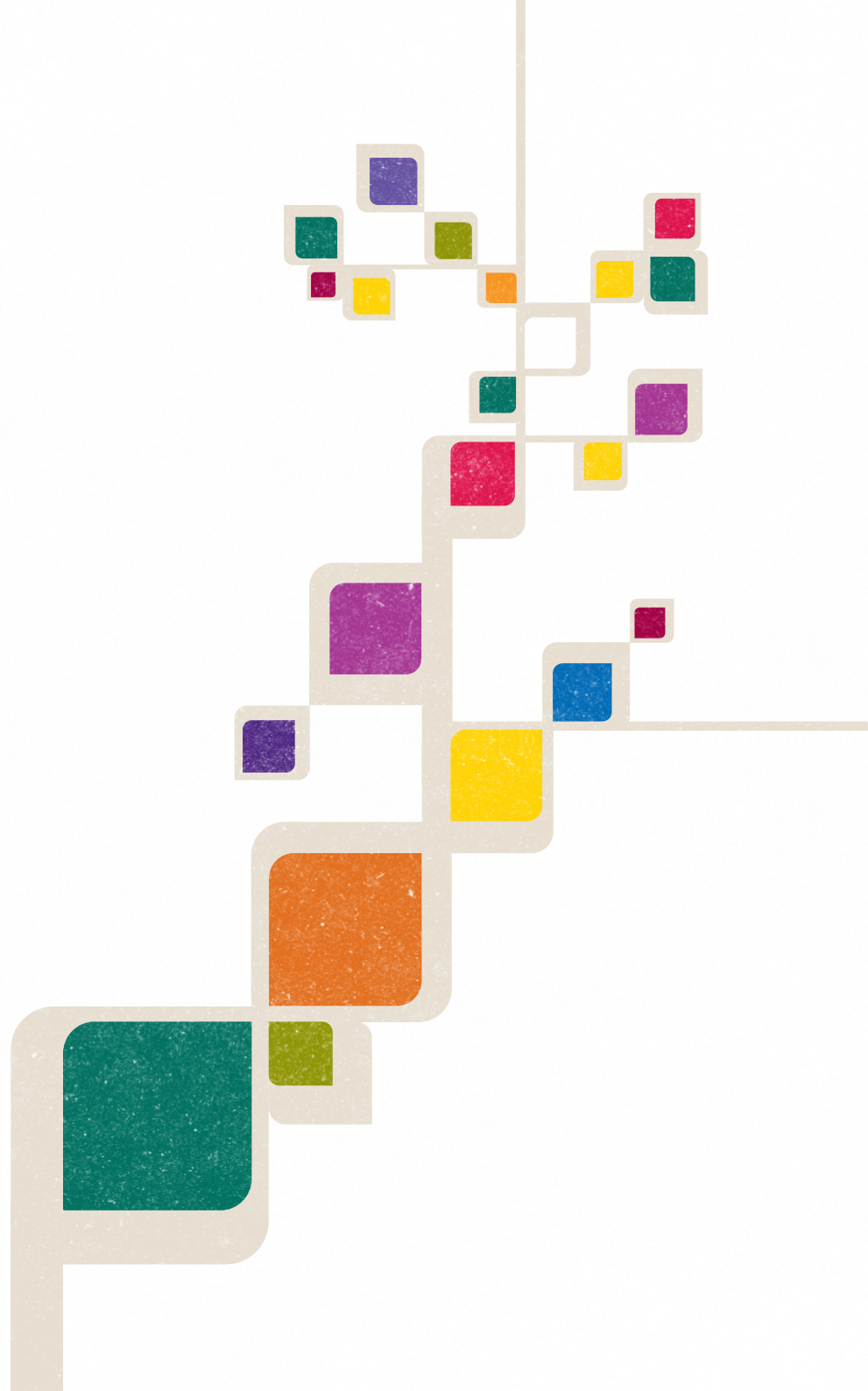
E nicholas.j.white@uk.gt.com

Rob Brearley

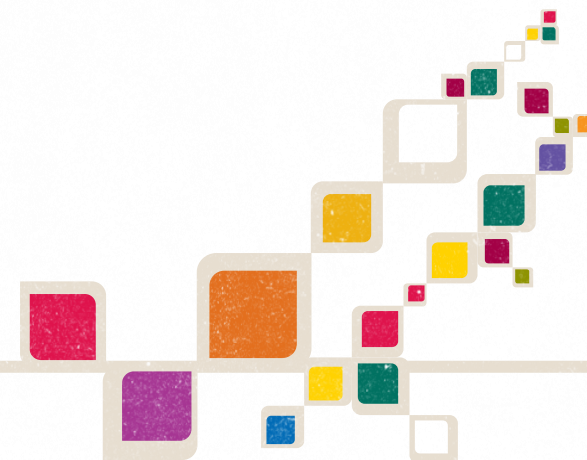
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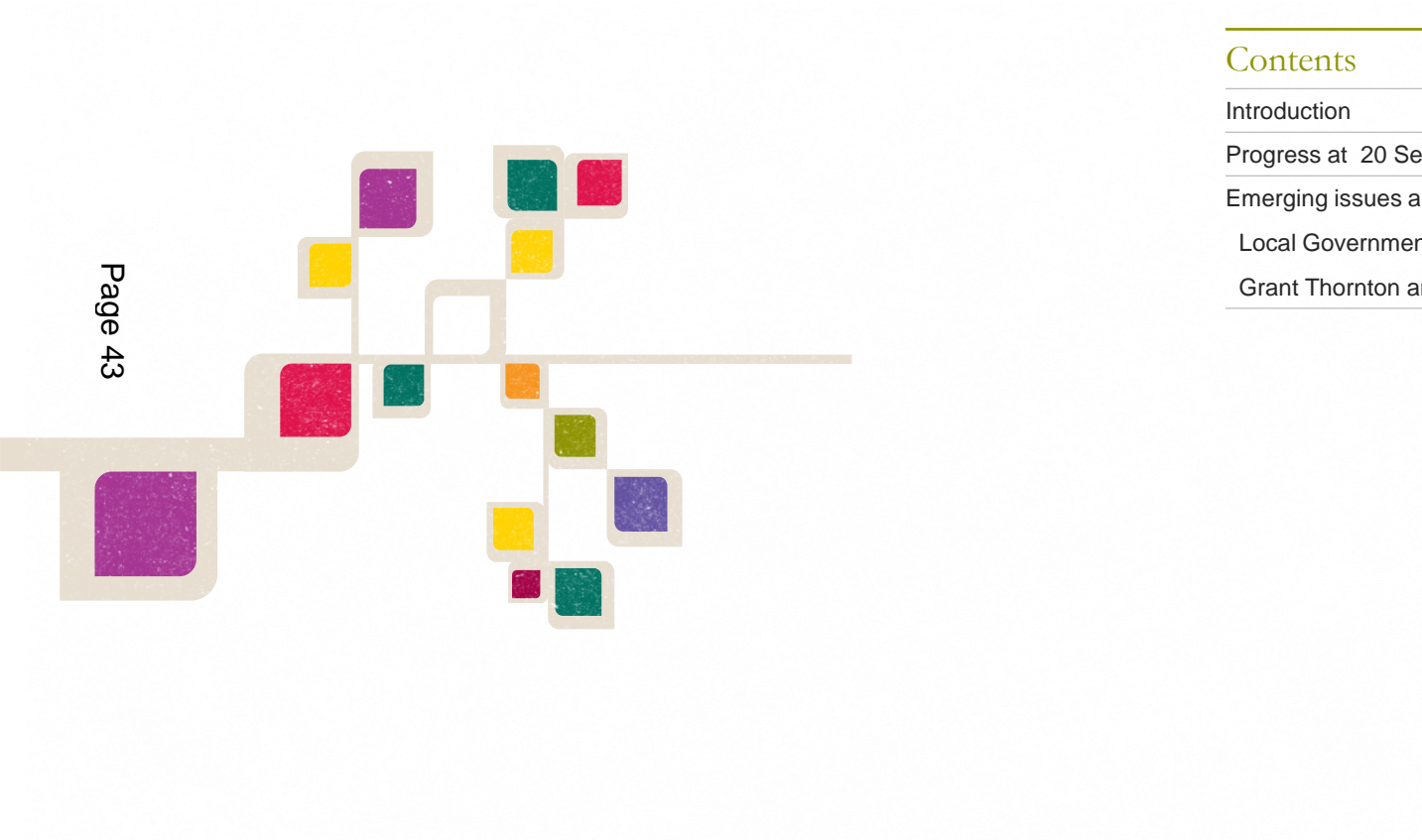
E robert.j.brearley@uk.gt.com



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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| Grant Thornton and CIPFA reports | 10 |

Introduction

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

Members of the Audit and Governance Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- Advancing closure: the benefits to local authorities:
http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/grt103821_faster-close-report-v07-web-version.pdf
- Reforging local government: Summary findings of financial health checks and governance reviews:
<http://www.grantthornton.co.uk/en/insights/reforging-local-government/>
- Partnership working in Mental health:
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/partnership-working-in-mental-health.pdf>
- Innovation in public financial management:
www.grantthornton.co.uk/en/insights/making-devolution-work/
- Better Together: Building a successful joint venture company:
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

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



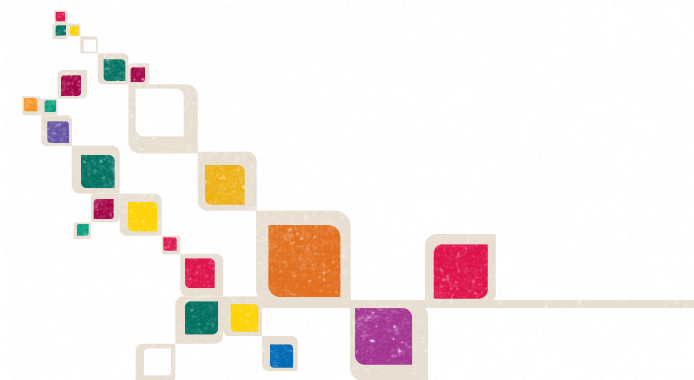
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Progress at 21 July 2016



Progress against plan

On track



Opinion and VfM conclusion

Plan to complete our work July 2017



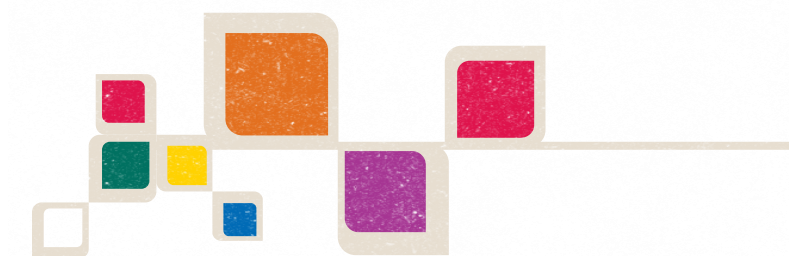
Outputs delivered

Fee letter, Progress Reports, delivered to plan

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| 2016/17 work | Completed | Comments |
|---|---|---|
| Fee Letter We issued the 'Planned fee letter for 2016/17 in April 2016. | Yes on 23 April 2016 | This was presented to the Audit and Governance Committee in April 2016. |
| Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements. We also inform you of any subsequent changes to our audit approach. | No | This will be presented to the Audit and Governance Committee in April 2017. |
| Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing | No – planned to take place in November 2016 and February 2017 | |

Progress at 21 June 2016



| 2016/17 work | Completed | Comments |
|---|---|---|
| Final accounts audit Including: <ul style="list-style-type: none"> • Audit of the 2016-17 financial statements • proposed opinion on the Council's accounts | <i>Planned to be completed July 2017</i> | We are planning to complete our audit in July 2017. |
| Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties | <i>Field work in March – June , formal conclusion reported by July 2017</i> | The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We will include our conclusion as part of our report on your financial statements which we will given on July 2017 |

Local Government Accounting and other issues

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Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available requirements.



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By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 6th October 2016

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

Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit and Counter Fraud activity for the 2016/17 financial year to date and seeks approval for minor revisions to the anti-fraud and anti-corruption strategy.

FOR ASSURANCE AND DECISION

Introduction

1. This report summarises:

- the key findings from completed Internal Audit reviews
- the key outcomes from completed counter fraud investigations
- progress against the 2016/17 Internal Audit Plan;
- achievement against the Internal Audit and Counter Fraud Key Performance Indicators
- work in progress and future plans and improvements, and
- approval for a revised anti-fraud and anti-corruption strategy

Overview of Progress

2. Appendix 1 details the outcomes of Internal Audit and Counter Fraud work completed for the financial year to date. In total 15 audit reviews have been completed, including 12 substantive reviews. A further 3 substantive audits are at draft reporting stage and significant fieldwork is in progress for a further 11 audits. In relation to counter fraud work there have been 81 irregularities reported and investigated since the start of 2016/17 of which 32 have been concluded. Overall the unit has reviewed systems or activities with a combined spend of an estimated £119.5 million since the start of 2016/17.
3. Appendix 2 (the Internal Audit Progress Report) details the outcomes from this work against the more significant corporate risks (as ratified by this Committee in July) where it is practical for internal audit work to provide assurance against the progression of the management and mitigation of such risks
4. Appendix 2 also provides an update on the progress of the DCLG funded Kent Intelligence Network (KIN) data matching counter fraud project. More rapid progress has been made since the July Committee meeting and a revised and robust timetable has now been developed and an outline is included in this Appendix.

5. Progress against the Audit Plan for 2016/17 is broadly in line with target to achieve the Audit Plan key performance targets (KPI's) by 31st March 2017. The detailed KPI's are shown in Appendix 2. Inevitably at the start of each financial year there is a carry-over of work and audit resources are also focused on preparation on the annual opinion and governance statements. This initially impacts on the commencement of the 2016/17 work.

Implications for Governance

6. Where audits completed in the year have identified areas for improvement, management action has been agreed. All audits are allocated one of five assurance levels together with four levels of prospects for further improvement representing a projected 'direction of travel'. Definitions are included within the attached report.
7. Although at this stage drawn from a relatively small sample of audits, the outcomes to date have been satisfactory. In particular:
- Over a third of systems or functions have been judged with a substantive assurance or better (Freedom of Information processes have received a high assurance)
 - A continuing pattern of general robustness of key financial systems
 - Positive assurance over the Council's response to setting up robust asylum seeker children systems during particularly challenging circumstances
 - The development of potentially effective early help systems to manage demand for specialist children's services
 - Assurance over safeguarding controls in a sample of children's centres that have been audited
8. Areas for development and improvement relate to:
- One area (Bribery and Corruption controls) has received limited assurance, but top level management have acted swiftly to develop a rectification plan
 - The findings from the adoption consultancy review again underlines potential weaknesses in how elements of contracts are managed
 - Continuing issues over the maintenance of local financial controls at certain remote sites and establishments
9. No incidences of significant fraud, irregularity or corruption have been reported or detected during this quarter.
10. As such, from our coverage to date 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 material fraud and irregularity.

Anti-Fraud and Anti-Corruption Strategy

11. We have completed our annual review of the Council's Anti-Fraud and Corruption Strategy and a number of minor amendments have been recommended. A copy of the strategy (with tracked revisions) is attached at Appendix 2/B for the Committee to approve.

Benchmarking

12. Normally in this cycle of the year we report on benchmarking results for internal audit and counter fraud, traditionally based on CIPFA benchmarking clubs.
13. As Members will be aware, this year we withdrew from the CIPFA benchmarking club as so few County Councils were present, resulting in skewed and potentially misleading results from the data from the remaining Council's. We are now part of the County Council Audit Network (CCAN) benchmarking club but which has a different timing and frequency.
14. We still remain in the CIPFA counter fraud benchmarking club but we have been informed that due to changes in their personnel, the results for 2015/16 will not be available until mid-October. We will bring these outcomes to the January 2017 G&AC Committee.

Recommendations

15. Members are asked to note:
- Progress and outcomes against the 2016/17 Audit Plan and proposed amendments.
 - Progress and outcomes in relation to Counter Fraud activity
 - The assurances provided in relation to the Council's control and risk environment as a result of the outcome of Internal Audit and Counter Fraud work completed to date
16. Members are asked to approve revisions to the Council's Anti-Fraud and Corruption Strategy

Appendices

Appendix 1 - Distribution of internal audit judgements 2016/17 (to date)

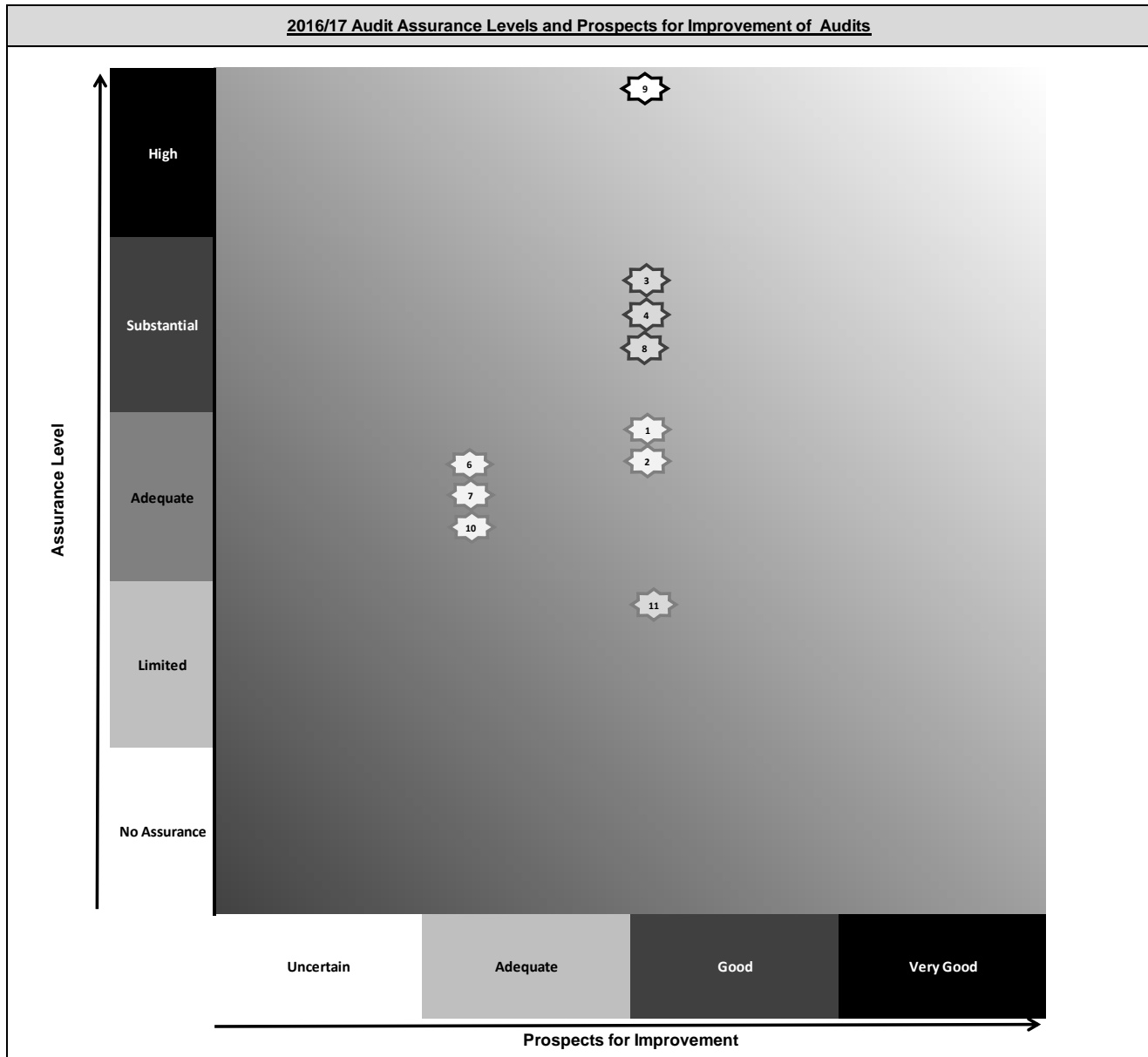
Appendix 2 - Internal Audit Progress Report October 2016

Appendix 2 App B - Anti Fraud and Corruption Strategy

Robert Patterson
Head of Internal Audit

(03000 416554)

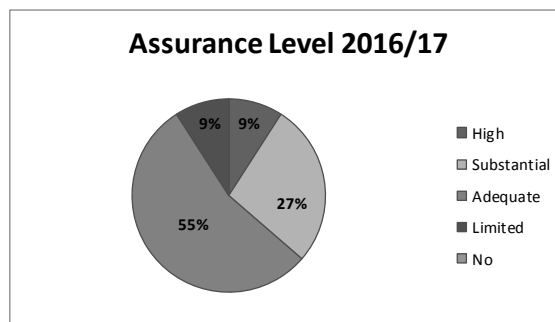
Appendix 1 – Distribution of internal audit judgements 2016/17 (to date)



Audit Opinion October G&A Committee

| No | Audit | Judgement | Prospects for Improvement |
|----|-------------------------------|-------------|---------------------------|
| 1 | Autism | Adequate | Good |
| 2 | UASC | Adequate | Good |
| 3 | Early Help - Step Up Process | Substantial | Good |
| 4 | TCP Process | Substantial | Good |
| 5 | ICT disaster/recovery | Adequate | N/A |
| 6 | ICT Swift | Adequate | Adequate |
| 7 | PROW | Adequate | Adequate |
| 8 | Schools and 3rd party payroll | Substantial | Good |
| 9 | FOI requests | High | Good |
| 10 | Data protection | Adequate | Adequate |
| 11 | Bribery and Corruption Act | Limited | Good |

| Assurance Level | No | % |
|-----------------|----|-----|
| High | 1 | 9% |
| Substantial | 3 | 27% |
| Adequate | 6 | 55% |
| Limited | 1 | 9% |
| No | 0 | 0% |



Note – The adoption consultancy review did not include formal assurance levels



Kent County Council

Internal Audit and Counter Fraud Progress Report

October 2016

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1 Introduction and Purpose

- 1.1. This report details cumulative internal audit and counter fraud outcomes for 2016/17 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since April 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 15 internal audits (including 3 establishment visits) and 32 counter fraud investigations, the majority of which are resourced and driven from the internal audit plan (previously reviewed by this Committee) and are selected on the basis of providing an independent and objective opinion on the adequacy of the Council's control environment. Overall we have examined an estimated £119.5 million of KCC turnover to date.
- 1.3. A further 14 audits including 2 counter fraud proactive projects are currently in progress, and a further 62 counter fraud investigations remain ongoing (including a number carried forward from the previous year).
- 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.
- 1.5. Internal audit also remains involved in monitoring the works in progress of selected significant change programmes and projects so as to provide timely pre-event challenge during the establishment of new control frameworks. During this period we have also undertaken a number of 'consultancy' styled assignments, using our expertise to review selected control areas for management.

2. Overview

Internal Audit and Counter Fraud

- 2.1. The covering paper to this progress report provides a graphical representation of the outcomes from the audits completed to date. In addition, to reprise our covering report, the following summary strengths and areas for development emerge from the work to date:
- 2.2. Strengths include:
 - Over a third of systems or functions have been judged with a substantive assurance or better (Freedom of Information processes have received a high assurance)
 - A continuing pattern of general robustness of key financial systems
 - Positive assurance over the Council's response to setting up robust asylum seeker children systems during particularly challenging circumstances

- The development of potentially effective early help systems to manage demand for specialist children's services
- Assurance over safeguarding controls in a sample of children's centres that have been audited

2.3. Areas for further improvement relate to :

- One area (Bribery and Corruption controls) has received limited assurance, but top level management have acted swiftly to develop a rectification plan
- The findings from the adoption consultancy review again underlines potential weaknesses in how elements of contracts are managed
- Continuing issues over the maintenance of local financial controls at certain remote sites and establishments

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

- Adequate and effective financial and non-financial controls
- Adequate and effective governance processes
- Adequate and effective processes to deter incidences of substantive fraud and irregularity

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

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

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

Managing and embedding sustainable change (including strategic commissioning)

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

| | Assurance Level | Prospects for Improvement | Issues Raised | |
|----------|-----------------|---------------------------|---------------|--------------------|
| Adoption | N/A | N/A | N/A | Consultancy review |

- 3.3. In relation to contracting and commissioning we undertook a consultancy post implementation review of the adoption contract which was previously been provided by the private sector and has now been brought back in house. In particular we examined the management of the contract, the re-letting process and how the service has addressed subsequent risks of the transfer of the service back to direct KCC management. Overall we found that in terms of outcomes the contract had resulted in significant improvements in performance. This was despite the management of the contract being problematic with issues over governance structures and that the specification was not formally changed as circumstances altered such that over £700k of payments were made outside the specification with no evidence to support invoicing. The absence of bidders in the re-letting process was largely due to time constraints and limited market engagement. We will be undertaking a formal audit of 'business as usual' controls of the in house adoption service later in the year.
- 3.4. In terms of works in progress in this risk area, we are currently concluding our work on the 0-25 transformation project and we are about to commence a review of business planning controls and outcomes across the Council.

Identification, planning and delivery of financial savings

- 3.5. Clearly associated with the above risk is the delivery and planning of resource reductions and in this respect we recently reviewed resource allocations in a critical element of Growth, Environment and Transport (GET) :

| | Assurance level | Prospects for Improvement | Issues Raised | |
|------------------------------------|------------------------|----------------------------------|----------------------|----------|
| Public Rights of Way (PROW) | Adequate | Adequate | High: 2 Medium: 0 | Accepted |

- 3.6. We were asked by the relevant Directorate to independently review risk assessment and management arrangements governing the capital resource allocations planned against reductions in the £619,000 budget in public rights of way. We found evidence of a meaningful asset investment and risk assessment process being applied to capital allocations but that the underlying evidence was fragmented and there was lack of common risk processes applied to both PROW and highways allocations, despite these resources being drawn from a unified capital budget. As a result of our work management has accepted that a new approach needs to be developed for 2017/18 on comparative need and risk across both highways and PROW.
- 3.7. Significant work in this area that has just commenced relates to an audit of the corporate medium term financial planning (MTFP) processes, controls and systems.

Data and Information management

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

| | Assurance level | Prospects for Improvement | Issues Raised | |
|--|------------------------|----------------------------------|--|----------|
| ICT Disaster Recovery follow up | Adequate | N/A | Of the six issues raised, one is fully implemented, one is 'risk accepted' whilst the remainder are in progress. | |
| ICT SWIFT | Adequate | Adequate | High: 1 Medium: 2 | Accepted |
| Data Protection | Adequate | Adequate | High: 0 Medium: 1 | Accepted |

| | | | | |
|---------------------|------|------|---------------------|-----|
| FOI requests | High | Good | High: 0 Medium:0 | N/A |
|---------------------|------|------|---------------------|-----|

- 3.9. A considerable amount of activity has taken place in this area in the last quarter, either through in house resources, or with our IT audit contractor Moore Stephens.
- 3.10. The ICT Disaster Recovery follow up showed satisfactory progress being made in rectifying issues raised. Of note, the previous issue of an overhaul of disaster recovery infrastructure has been rejected by CMT due to understandable cost considerations and the risks of the current arrangements have been accepted. (We do not make a prospects for improvement judgement on follow up audits that only focus on pre-existing actions and issues)
- 3.11. The SWIFT system governs case management in adult social care and our audit examined controls and standards and current compliance with relevant ISO information system security standards, the accreditation of which is important for NHS requirements. Overall we found that 96% of controls were compliant with the relevant ISO standards but that mandatory certification had yet to be drafted, anti virus software had not been updated and admin logs were not collected or analysed.
- 3.12. The Data Protection audit reviewed the Council's compliance and controls in relation to adherence to relevant legislation. Overall there is good systems, procedures and support including that from a central team. Unfortunately weaknesses in compliance to organisational training and inconsistent reporting by business units to the central team are resulting in 37% of 'subject access requests' (SAR's) failing to be completed within statutory deadlines.
- 3.13. Our review of processes and controls around managing freedom of information (FOI) requests was extremely positive with robust systems in place and requests appropriately logged and tracked, such that our sampling showed 98% compliance with relevant deadlines.

Safeguarding – protecting vulnerable children and adults

- 3.14. During this quarter we looked at safeguarding within 3 children's centres (see later) and our lessons learned consultancy review of the adoption contract also examined the controls in place of the transfer of the service back in house.

Implications of increased numbers of unaccompanied asylum seeker children

- 3.15. During this period we have undertaken a specific audit relating to this risk:

| | Assurance Level | Prospects for Improvement | Issues Raised | |
|-------------|------------------------|----------------------------------|----------------------|----------|
| UASC | Adequate | Good | High: 1 Medium: 1 | Accepted |

- 3.16. Overall we can provide assurance that despite considerable risks and pressures, the UASC systems which were put in place at short notice have maintained critical financial controls and the utilisation of block contracts has resulted in continued best value. There is a need to consistently record placement decisions and to undertake a 'lessons learnt' review so that systems can be further improved in future.

Health and Social Care Integration

- 3.17. In this period we have looked at integrated working with health in relation to Autism :

Page 63

| | Assurance Level | Prospects for Improvement | Issues Raised | |
|---------------|------------------------|----------------------------------|----------------------|------------------------------|
| Autism | Adequate | Good | High: 0 Medium: 2 | TBC Currently at final draft |

- 3.18. There is no dedicated budget for autism services but it is absorbed into general client expenditure. Strategies are still in draft and the resultant needs assessments need to be re-visited. At the current time the service is fragmented and in relation to efficiencies some progress is being made in reviewing high cost clients.

Management of Demand – adult social care and early help / specialist children's services

- 3.19. One of the key initiatives to safely manage demand for specialist children's services is through early intervention in early help units and the process that manages the transfer between the two types of care.

| | Assurance Level | Prospects for Improvement | Issues Raised | |
|---|------------------------|----------------------------------|----------------------|--------------|
| Managing 'Step Up' to Specialist Children's Services and 'Step Down' to Early Help | Substantial | Good | High: 0 Medium: 4 | All accepted |

- 3.20. Our audit specifically examined the District Partnership panel processes and that risks and whether issues are properly considered. We did not examine the intervention work carried out by individual early help units. Overall the panel process is having a positive effect, both in terms of fostering more integrated working and as an effective control to cases that are transferred between SCS and early intervention. Critical information is considered at panel meetings and there is evidence that risks are appropriately considered. KPI's are being used effectively and are being used to manage performance down to individual worker level. We did evidence that variations in processes were developing and in particular the process for reviewing cases after being 'stepped down' differs considerably between districts.

Financial and operating environments – critical systems and functions

- 3.21. As would be expected from an internal audit function, a considerable proportion of our work is centred on reviews of core critical financial and non-financial systems. We have undertaken a miscellany of topics during this quarter:

| | Assurance level | Prospects for Improvement | Issues Raised | |
|--|------------------------|----------------------------------|----------------------|----------|
| Anti Bribery and Corruption Controls | Limited | Good | High: 1 Medium: 0 | Accepted |
| Schools and 3rd party payrolls | Substantial | Good | High: 0 Medium: 1 | Accepted |
| TCP process | Substantial | Good | High: 0 Medium: 6 | Accepted |

- 3.22. Our largest piece of work related to a review of KCC's compliance with the Bribery Act Policy. This Act has increased risks to the Council in that if there was an active bribery offence committed and the Council could not demonstrate an "adequate procedures defence" it could face prosecution. Our 'limited' assurance is based on the evidence that although the Council has an adequate Bribery and Corruption Policy it has not enacted or followed up on critical elements within it, particularly undertaking risk assessments, continual promotion and focused training. Top level management have acted promptly and appropriately on our findings and over the next 3 months CMT will undertake a risk workshop to determine those areas in the Council that require more focused controls and training and there will be more effective communication to senior managers across the Council.
- 3.23. The schools and 3rd party payroll audit examined the payroll functions undertaken to 141 schools and other third parties by the Business Service Centre. Overall we found effective systems and controls in place and all key payroll functions are being performed in a timely and accurate manner and as such is delivering within the contract terms and conditions. Management are also adopting more automated and effective systems for notification of payroll changes.
- 3.24. The TCP audit examined the controls and management of the staff salary performance system which indirectly governs £5.2 million of salary increases and £233,000 in cash awards. Overall we concluded that rewards were awarded in line with policies and that consistency was achieved through an effective moderation process. We have raised issues around authorisation of cash awards and that both cash and manual processes should be brought into line with the agreed TCP processes.

4. Other Audit Work

Grant Certification

- 4.1. We continue to independently review Troubled Families grant claims. Our most recent audit sampling found 15% of cases were inadmissible because of insufficient evidence and as such appropriate adjustments were made prior to referral to the DCLG.

Establishment Visits

- 4.2. During the past 6 months we have concluded audits of 3 children's centres, as part of a themed review over the year with the following outcomes:

| | Assurance level |
|---------------------|------------------------|
| Willows | Adequate |
| Buttercups | Limited |
| Caterpillars | Adequate |

- 4.3. Key strengths from these centres were good controls to safeguard children through to training of staff. DBS checks were being undertaken properly for all staff, although at one Children's Centre there were a 2 DBS checks for volunteers which needed to be renewed. Areas for development related to banking of income, authorisation and checking of purchases made by the centres. All issues have been accepted by management with appropriate action plans and timescales for rectification agreed.

Other Audit Activity

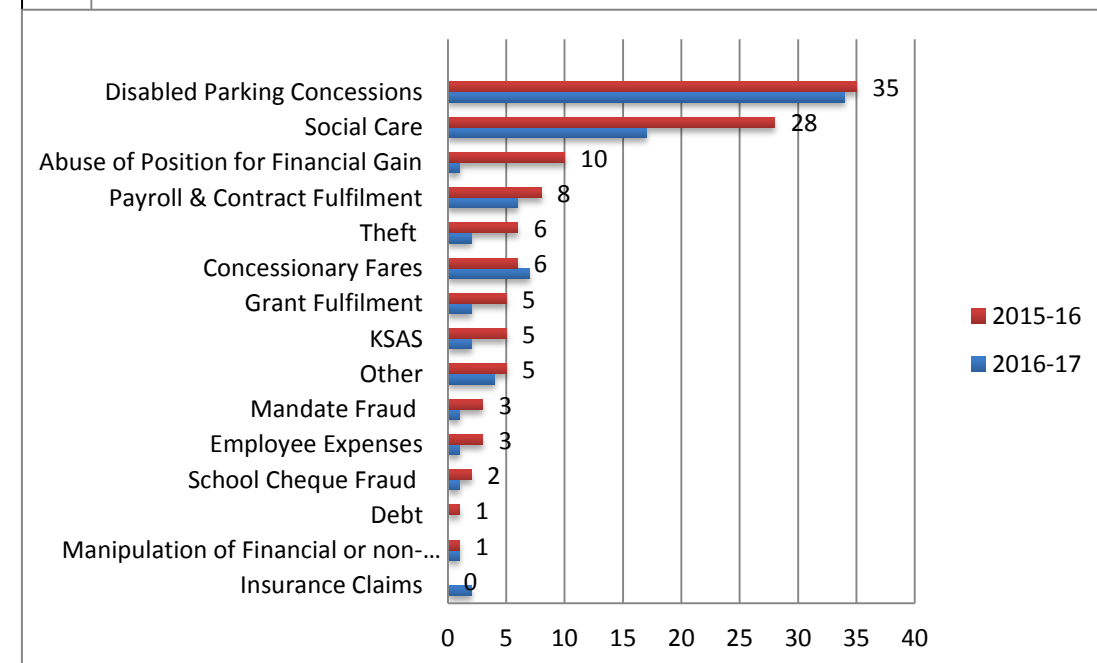
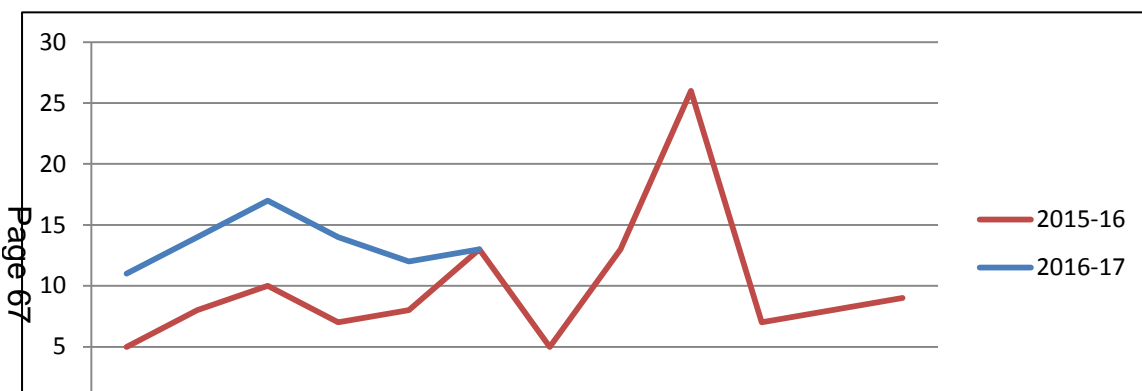
- 4.4. We continue to diversify our work by offering a proportion of our services to other public sector related or associated bodies, including
- A 'Group Audit' activity to Kent Commercial Services, Gen2 and to the future Legal LATCo
 - Appointed auditor to 12 Parish Council's
 - Internal audit of Kent and Essex Inshore Fisheries and Conservation Authority
 - Internal audit of Kent and Medway Fire and Rescue Service
 - Management of the audit and fraud service at Tonbridge and Malling Borough Council

5. Counter Fraud and Corruption Fraud and Irregularities

- 5.1. To date we have recorded 81 irregularities in 2016/17 of which 49 remain open and 32 have been closed. The potential value for these cases is £344,983. This figure includes the potential losses at the point of referral and actual losses (from opened and closed cases) and prevented losses (where no actual loss occurred).
- 5.2. Tables CF1 to CF4 below compares activity from 2015-16 to 2016-17 and summarises the irregularities by type of fraud, source and directorate.

- 5.3. The table CF1 shows a clear increase in the amount of irregularities received in Q1 and Q2 of 2016-17 financial year. This is due to the high number of Blue Badge referrals the fraud team have received. In comparison, during the last financial year the Counter Fraud team recorded a total of 120 irregularities for the whole year. The 81 irregularities we have recorded for 2016/17 is equal to 68% of the total irregularities received in 2015/16.
- 5.4. The most common type of fraud recorded to date relates to Disabled Parking Concessions (Blue Badges). This trend has continued because of the Blue Badge training we have been running at district and borough councils to support their enforcement activity. This has also impacted on the most common source of referral (outside agencies) and the number of referrals recorded against Social Care, who have overall responsibility for the Blue Badge Scheme in Kent.

Table CF-1 2015/15 & 2016/17



CF2-Irregularities by Type

Table CF3 -Irregularities by Directorate

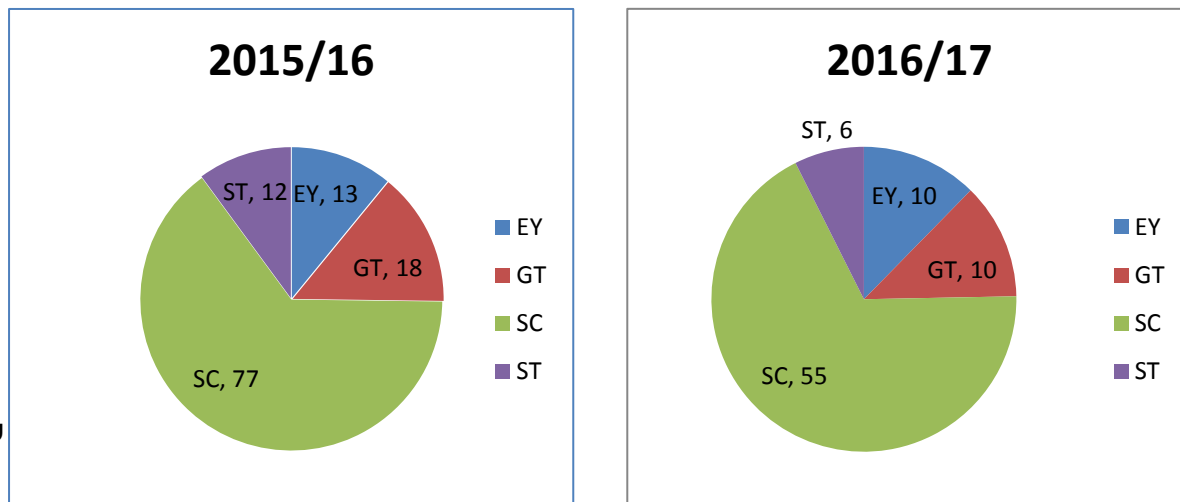
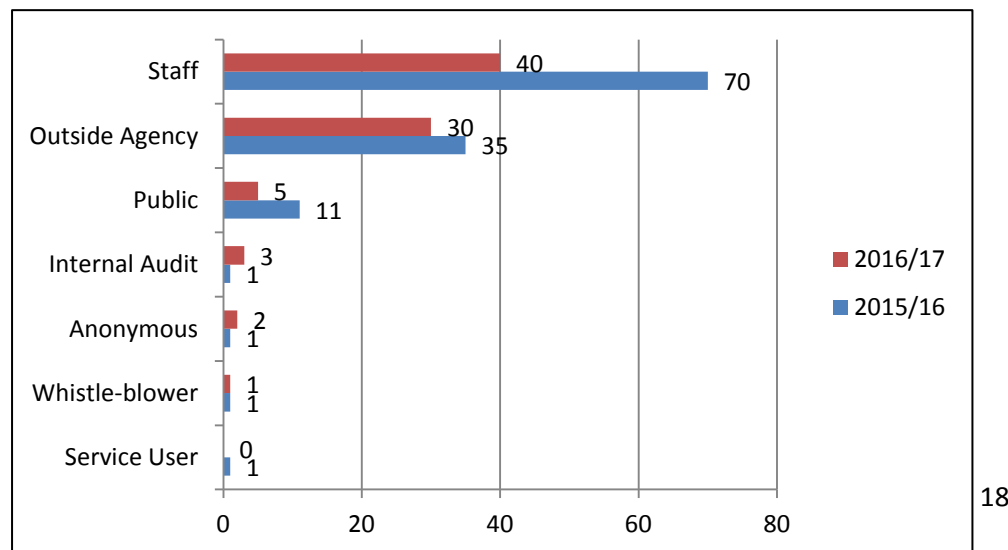


Table CF-4 Referrals By Source



Kent Intelligence Network

5.5. Since the July Committee meeting the following actions have taken place:

- The protocols for the data sharing were finally agreed in early September and are now formally ratified by the constituent authorities.
- In terms of the governance processes the joint Board has been constituted and has been meeting monthly since August
- Priorities for data matching have been agreed and all participating authorities extracted data for matching during mid September.
- Matching data and assembling into useful investigative information will take 4 weeks. It is anticipated data for investigation will be ready by 14th October. Initial feedback is planned for mid November.

5.6. As such we are satisfied that more substantive progress is being made across the constituent authorities, although clearly the project moves to a more critical phase in the mobilisation of counter fraud resources across Kent to review and investigate the initial outcomes from this data matching.

Anti-Fraud and Corruption Strategy

5.7. We have completed our annual review of the Council's Anti-Fraud and Corruption Strategy and a number of minor amendments have been recommended and are shown in the tracked change version in Appendix B. In summary these include a definition for corruption (which was missing) through to amending reporting arrangements with the abolition of the Audit Commission.

6 Internal Audit and Counter Fraud Performance

6.1 Performance against our targets to the end of August 2016 are shown below:

| Performance Indicator | Target | Actual |
|---|--------|--------|
| Outputs | | |
| 100% of Priority 1 audits completed (by year end) | 22% | 23% |
| 50% of Priority 2 audits completed | 12% | 10% |
| Time from start of fieldwork to draft report to be no more than 40 days | 100% | 53% |
| No of fraudulent incidents / irregularities recorded | N/A | 81 |

| Outcomes | | |
|--|-----|----------------|
| % of high priority / risk issues agreed | N/A | 100% |
| % of high priority / risk issues implemented | N/A | Report January |
| % of all other issues agreed | N/A | 94% |
| % of all other issues implemented | N/A | Report January |
| Client satisfaction | 90% | 90% |
| Total Number of occasions in which a) Fraud and b) irregularity were identified | | 24 8 |
| Total monetary value detected of (a) Fraud (b) Irregularity | | £11,806 £0 |
| Total monetary value recovered of (a) Fraud (b) Irregularity | | £2,799 £0 |

- 6.2. In general the output outputs are in line with our plans and the level of completion of audits is projected to deliver the audit and counter fraud plan outcomes and targets by the end of 2016/17.

7 Internal Audit and Counter Fraud Resources

- 7.1. We have no current issues with audit and counter fraud resources and staff turnover is currently low.
- 7.2. We will be repeating our use of peer auditors for 2016/17 as part of a management development role for internal audit as well as bolstering our resources.

8 Work in progress and future planned coverage

- 8.1 Appendix C details progression against the agreed plan coverage and substantiates the estimation that we are on target to achieve our planed coverage.

8.2 For the next quarter of the year we have a number of substantive audits to complete including

| | |
|--------------------------------|----------------------------------|
| Contact Point contract | IT software lifecycle management |
| Carers Assessments | 0-25 Transformation Programme |
| Medium Term Financial Planning | Safeguarding in EYPS |
| General Ledger | Disabled Children |
| VAT | Schools Improvement Team |

9 In Conclusion

- 9.1 We are satisfied that over the past 6 months sufficient internal audit and counter fraud work has been undertaken to allow us to draw a positive conclusion as to the overall adequacy and effectiveness of KCC's standards of control, governance and risk management.
- 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 2016/17 Internal Audits issued

Autism

| | |
|---------------------------|-----------------|
| Audit Opinion | Adequate |
| Prospects for Improvement | Good |

A strategy was first drafted in 2015 but is still in consultation and the needs analysis on which it should be based is being revisited. At the current time the service suffers from fragmented working with the Clinical Commissioning Groups which impacts on a number of key areas and information management. In terms of efficiencies some progress has been made towards reducing the cost of high cost clients but the approach has not been embedded. There is no dedicated budget for autism services client expenditure, support/care costs are attributed to the general Adults budgets.

The following strengths and areas for improvement were identified:

Strengths

- Governance arrangements are in accordance with the Directorate framework and risks are identified and recorded and monitored.
- There is a draft strategy currently out for consultation.
- An Autism Collaborative has been established which acts as an autism partnership board bringing together different organisations, services and stakeholders.
- A Department of Health required self-assessment checklist is completed every year.
- An advocacy and peer support service has been commissioned.

- There had not been a review of compliance with national guidance and legislation (one is currently underway)
- A Department of Health required self-assessment checklist is completed every year. The latest assessment indicated there were a number of areas for improvement, but there is no action plan as a result of the assessment.
- The social care costs for ASC clients are not allocated to a separate Autism Service budget and therefore it is difficult to adjust for savings identified.
- High cost care package initiatives to generate £400K of savings in 2015 were not embedded. Based on evaluation of these initiatives these could be reflected in future budgets.

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

- The poor co-ordination and integration between a strategy and needs analysis is of concern together with the time needed to get this ratified.
- The lack of a joined up approach by CCGs and an agreement with them on the way forward has the potential for an adverse effect on the success of strategic and operational planning
- Temporary posts in the team are now permanent positions so resources are guaranteed going forward.
- There is incentive to continue to look at high cost cases as reviews have shown that savings can be made.

- The Autism Spectrum Condition ASC team has put in place systems to try to reduce high cost cases.

Areas for Development

- The needs assessment that helps inform the strategy is still in draft stage and is being revisited as there are inaccuracies. Despite this issue the strategy has been out for consultation since January 2016.
- There is no agreement between KCC and the local CCGS on the way forward so there is not an integrated approach.
- There is currently no multidisciplinary team across the authority and local NHS organisations. Development of integration in the future is being considered

Summary of management responses

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

UASC Allocation of Accommodation

| | |
|---------------------------|-----------------|
| Audit Opinion | Adequate |
| Prospects for Improvement | Good |

The Social Care, Health & Well Being Directorate should be commended for their efforts in dealing with the UASC crisis during the summer of 2015 under very extreme circumstances. The UASC budget was considerably overspent as a result of the crisis. The 15/16 budget was set at a net spend of £280,000 whereas the actual was £1,654,581.

Overall we can provide assurance that despite considerable risks and pressures, critical financial controls have been maintained and that the continued utilisation of block contracts has assured continued best value. Sustainability of these arrangements may be impaired by the lack of a lessons learnt review. In addition a theme from our testing was an absence of recording of a number of routines due to the workload pressures during the crisis period.

Key Strengths

- There are detailed procedure notes available to staff to assist with all processes for children that are deemed to be looked after. Our testing showed that during the crisis period these were not always adhered to due to the volume of UASC arrivals.
- Accommodation availability is effectively monitored.
- Block contracts are in place regarding these placements.
- Budgets are monitored effectively.

Areas for Development

- Decisions made at the weekly meetings held at the reception centres regarding accommodation placements should be documented.
- A formal review of what lessons can be learnt following the 2015 UASC crisis should be carried out so that it can be fed into future situations that may occur.

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

- Management have responded positively to the issues raised in this report.
- Despite adverse external factors beyond the control of KCC, generally fit for purpose and robust systems were developed at short notice.
- A 'lessons learnt' review would assist future improvements.

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 | 1 | 1 | 0 |
| Low Risk | 0 | 0 | 0 |

Managing Step-Up to Specialist Children's Services and Step-Down to Early Help

| | |
|---------------------------|--------------------|
| Audit Opinion | Substantial |
| Prospects for Improvement | Good |

The District Partnership Panel process has been imbedded in all districts, although a number of variations in the process had developed in practice. There is a positive attitude towards the process, and the attendance at panels of Specialist Children Services Workers has aided the improvement of relationships between teams.

The panel's role of reviewing stepdown cases allows improved management oversight of stepdown cases. The requirement for joint visits also encourages better engagement from families. However there were inconsistencies regarding how both these requirements have been implemented.

There is currently insufficient information to judge the impact on demand to SCS.

Key Strengths

- In the 7 districts sampled, agendas and minutes showed panels happened weekly, with few exceptions
- Staff were positive about the panel process
- All sampled cases stepped down from Specialist Childrens Services (SCS) had been through a District Partnership Panel (the panel)
- The implementation of the panel meetings has improved working relationships with SCS
- Core information/transfer forms were presented at panel meetings and there was evidence that risks and issues were considered
- KPIs and the performance dashboard are available and utilised by managers to manage performance down to individual worker level.

Areas for Development

Differing views and practices as to the importance of joint visits with SCS during step down

- The panel process can be time consuming and involve duplication of effort when recording discussions and decisions
- The process for reviewing cases after being stepped down differs considerably between districts
- Key performance data on re-referral to SCS of Early Help cases is not reported on divisional dashboards

Prospects for improvement are considered to be good, based on the following factors:

- Sufficient training is provided to the users of the Swift/AIS applications/systems.
- The business application support team have significant knowledge of the Swift/AIS applications/systems.
- Management and staff were receptive to the issues raised.

Summary of management responses

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

Appraisal and TCP Process

| | |
|---------------------------|--------------------|
| Audit Opinion | Substantial |
| Prospects for Improvement | Good |

Review of the appraisal and TCP process found areas where controls were operating appropriately including informed decisions for both determining the amount to reward staff and the moderation process. However there are some areas for improvement which could enhance the current process, Staff and Management's perception and consistent application of the process.

Our above audit opinion is based on the following key strengths and areas for development:

Key Strengths

- Staff within our sample had been rewarded correctly in line with the agreed pay increases.
- A consistent approach was undertaken during the moderation process at Directorate Management Team (DMT) and Corporate Management Team (CMT) level.
- Based on review of available documentation we have found there to be robust rationale to support key decisions including increases for the 2015/16 TCP cycle.

Areas for Development

- Cash awards should be used appropriately and not as a means bypass the corporately agreed TCP process and be authorised appropriately.
- Clear documented guidance relating to the entirety of the appraisal and TCP process should be available to all KCC staff.

- Payments made through the manual process should not bypass the moderation process and evidence should be obtained from the "Grandparent" prior to actioning.
- Sufficient opportunity to receive higher ratings should be made available for those on lower grades including wider contributions.
- The appraisal and TCP process should be undertaken consistently to allow fair and equitable judgements.
- All eligible staff should receive a TCP assessment including those that become eligible after any set deadlines.

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

- The issues identified have been positively received with the key findings of the audit identified and discussed with management.
- Management have a clear vision on where they want to get the system

Summary of management responses

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

Swift/AIS Application and Preparedness for ISO 27001 Certification Review

| | |
|---------------------------|-----------------|
| Audit Opinion | Adequate |
| Prospects for Improvement | Good |

This audit evaluated the requirements to achieve compliance with the 35 control objectives of the ISO 27001:2013 standard. The audit was carried out using a 'Gap Analysis' tool and focussed on the controls which we believe could be in scope for the ISO 27001 certification, In summary we found that:

- 96% of the controls that we reviewed were compliant with controls identified within ISO27001; and
- 4% of the controls that, we reviewed were found to be partially compliant.

Key Strengths

- Information Technology (IT) security policies have been documented and communicated to relevant key stakeholders.
- Information Security Officer (ISO) roles and responsibilities have been defined.
- The ICT asset register is maintained by both the business support team and the infrastructure team.
- Application password configuration is compliant with the corporate password policy.
- Ownership of the Swift/AIS applications/system has been defined.
- The use of removable media has been restricted on KCC infrastructure.
- Logical access controls at the application level are in place and are monitored by the business application support team.

- Physical access and environmental controls are in place at the Sessions House data centre where Swift/AIS application and data is hosted.
- Segregation of the development, test and production environments is in place.
- Swift/AIS application and data is backed up at the disaster recovery site.
- Data sharing procedures have been documented.
- Third party application maintenance and support contract is in place.

Areas for Development

- Mandatory certification documentation has yet to be drafted.
- Anti-virus not updated since March 2016.
- Administrative logs are not collected and analysed.

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

- Sufficient training is provided to the users of the Swift/AIS applications/systems.
- The business application support team have significant knowledge of the Swift/AIS applications/systems.
- Management and staff were receptive to the issues raised.

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 | 2 | 2 | 0 |
| Low Risk | 0 | 0 | 0 |

Highways, PROW and Related Assets Risk Review

| | |
|---------------------------|-----------------|
| Audit Opinion | Adequate |
| Prospects for Improvement | Adequate |

For the current financial year (2016/17) as with previous financial years, the amounts included in the bids for capital allocation exceed the budget available. There is a significant shortfall when considered against the various Asset Management Plans submitted.

There is evidence of a risk assessment approach being taken in PROW and KHT for allocating priorities and resources to schemes within individual asset groups.

Key Strengths

- There is evidence of the use of robust risk assessment criteria within asset groups which could be developed further to be applied between the different asset groups.
- There is recognition within PROW and KHT of the continuing reduction likely in resources and this is reflected in the approach to making the best use of resources available based on identified priorities within asset groups.
- The management accepts that a new approach needs to be considered for 2017/2018 to create a system based, as far as practicable, on comparative need and risk.
- An asset investment tool using risk management and simple cost benefit analysis has been developed in PROW. This may be able to be developed further for use within KHT.
- Both services have produced comprehensive documents defining a strategy for asset improvement and management which provide a broad indication of the approach to managing risk and setting priorities within the service.

Areas for Development

- The documents developed so far are mostly strategic or informative and do not present a defined policy and procedure for staff to use in allocating resources between asset groups.
- Present documentation is fragmented. Improved documentation of the risk management process is required to provide a defence against challenge and demonstrate a considered approach to managing risk and the allocation of resources at a time of reducing resources.
- Research is required into the development of common processes available to assess risk between asset groups.

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

- The teams in PROW and KHT are receptive to feedback and have demonstrated continued process improvement in matching schemes to reduced resources.
- Management recognise the need to improve risk assessment and the allocation of resources within and between asset groups. There is now a commitment to tackle this issue.

Summary of management responses

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

Outsourced Payroll Contracts for Schools and Academies

| | |
|---------------------------|--------------------|
| Audit Opinion | Substantial |
| Prospects for Improvement | Good |

We can provide a Substantial assurance that there are effective systems and controls in place to manage outsourced payroll. Detailed procedures are in place and there are training plans to enable staff to develop their knowledge on the payroll process. An appropriate level of checking is conducted to identify and correct errors prior to payroll runs being completed. Segregation of duties exists to ensure no one person/team has the ability to amend and run the payroll.

In addition, a CRM Cloud portal has been introduced to increase efficiency within the payroll process, although there are still a small number of contracts using paper/email to notify KCC of payroll changes.

Key Strengths

- System access is appropriately controlled.
- Buddy checking of new starters, leavers and amendments is completed on existing payroll contracts.
- Payroll exception reports are produced and action taken to address any exceptions raised.
- Starters, leavers and amendments are processed in a timely manner.

Areas for Development

- There is no formal management sign off following the testing of payroll system software releases.
- The provision and guidance to Academies/ Trusts in respect of the recovery of salary overpayments.
- Lack of evidence to demonstrate completion of buddy checks for new payroll contracts.
- Retention and storage of reconciliation evidence to support the payroll production process.

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

- The adoption of an automated notification system (CRM cloud) for payroll changes reduces the risk of errors and increases efficiency.
- Management have responded positively to the issues raised in this report and developed appropriate action plans to address them.
- Training is in place to ensure continuity of controls with new staff.

Summary of management responses

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

Freedom of Information Requests

| | |
|---------------------------|-------------|
| Audit Opinion | High |
| Prospects for Improvement | Good |

From sample testing and review of policies and procedures we found that there are robust systems and controls in place and operating to ensure compliance the Freedom Information Act 2000. All requests are appropriately logged and progress is tracked to ensure that where possible full and accurate responses are issued in line with statutory deadlines.

Key Strengths

- Detailed information and advice is available to the public on how to make and Freedom of Information requests.
- Up to date internal policies and procedures are in place and available to enable staff to respond appropriately to requests.
- The majority of requests are dealt with in a timely manner and when delays are experienced this is communicated with the requestor. 98% of our sample was completed within relevant deadlines.
- Where requests are rejected, this is in accordance with the exemptions outlined within the Act.
- The majority of complaints received from the public (or via the Information Commissioners Office) had been investigated and responded to in a timely manner.

Areas for Development

- Incorporating acknowledgements following receipt of a complaint from an FOI requester may be good for improving customer care for the 15% that currently don't receive them.

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

- The IR&T Team management are engaged and knowledgeable on FOI legislation and associated KCC procedures and their focus is on the right priorities and outcomes.
- There is a focus on the public and the council is responsive to complaints and investigations.
- Resource is sufficient to provide an effective and efficient service to the public.
- Communication between the IR&T Team, business units and senior management is effective and aids in the achievement of objectives.

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 | 1 | 1 |

Data Protection

| | |
|---------------------------|-----------------|
| Audit Opinion | Adequate |
| Prospects for Improvement | Adequate |

There are good arrangements in place to ensure staff are aware of their responsibilities when handling personal data. Support and advice is provided by the Information Resilience and Transparency (IR&T) Team and there are systems and controls operating to ensure compliance with statutory requirements to respond to requests for data held on individuals and to release data to third parties where appropriate. Despite these strong controls, over a third of Subject Access Requests (SARs) fail to adhere to statutory deadlines.

Information governance and data protection arrangements were reviewed in 2015 by the Information Commissioners Office, which largely covered a different scope to this audit as it focussed on the Social Care directorate.

Key Strengths - General

- The Data Protection policy and guidance is up to date and accessible to staff and the public.
- There is compliance with statutory requirements in providing data to individuals and discretionary powers to release data to third parties if relevant exemptions in place.
- Procedures are in place within the Information Resilience and transparency (IR&T) Team to deal with SARs, third party enquires & data breaches.
- Regular reports are produced to inform relevant cross directorate groups and cabinet committee on compliance with the Data

Areas for Development - General

- There are weaknesses in the identification and reporting of the completion of mandatory Data Protection and Information Governance training for contractors/agency staff.
- Organisation wide compliance rates with mandatory training, currently 75% for Data Protection and 73% for Information Governance, are below expected standards but are increasing.
- Inconsistent reporting by business units to the IR&T Team when third party requests have been responded to.
- Validation checks for legal firms unknown to the IR&T Team, following requests for personal data, are not undertaken.
- Lack of clarity on the escalation process to the Senior Information Risk Owner (SIRO) when data breaches occur.
- The £10 fee was waived for 28% of our SARs sample, which is not in line with policy and procedure documents. When extrapolating our findings the total potential annual loss is however immaterial at less than £1K.
- 37% of responses to SARs were not completed within the statutory deadlines.

Areas for Development - Community Learning and Skills

- Poor evidencing of the rationale behind the exchange of bulk personal data.
- IT access is not always removed promptly when staff leave the authority.
- Lack of evidence to record who, how and when data is destroyed in line with the data retention schedule.

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

- Leadership is generally very good. There are high levels of awareness and engagement around the quality of KCC's information governance.

Protection Act.

- There are systems and controls in place to facilitate awareness for KCC staff including readily accessible E-learning modules.
- E-learning modules are comprehensive and subject to regular review.

Key Strengths - Community Learning and Skills

- Privacy Notices are in place to inform the public about how their data will be used by the Council.
- Data is held and used for the intended purpose and where bulk data reports are produced this is for a defined purpose.
- Electronic data and paper forms containing personal information is held securely.
- A document retention schedule is in place covering paper and electronic data.

- Required Improvements are recognised by management and appropriate action is being taken to address the issues identified. However, resource capacity will be a continuing issue to meet statutory time scales in respect of Subject Access Requests.
- Resource is well managed within the IR&T Team, however business units experience some capacity issues in completing Subject Access Requests alongside service delivery leading to delays.
- Quality training is in place for all staff and compliance rates are improving.

Summary of management responses

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

Bribery and Corruption

| | |
|---------------------------|----------------|
| Audit Opinion | Limited |
| Prospects for Improvement | Good |

KCC has taken appropriate measures to implement a Bribery and Corruption policy and amend associated policies to set the “tone from the top”. However enacting critical elements, assessing the impact and effectiveness and continually promoting the policy and associated risks has been inconsistent. Therefore, if a member, officer or associate of the Council were to commit an active bribery offence (which involves offering rather than accepting a bribe) the Council may not be able to demonstrate an “adequate procedures defence” (as defined by the Ministry of Justice), and could be prosecuted for the corporate offence of failing to prevent bribery. Whilst we acknowledge that the likelihood of such a risk materialising to the Council is low, the impact should it happen could be severe and therefore it is imperative that we can demonstrate that we have acted reasonably as such a defence.

Furthermore, as the Council continues to realise its strategy of becoming a commissioning authority, the likelihood of this risk materialising could increase where alternative delivery models are required to generate profit.

Key Strengths

- There is a clear zero tolerance approach adopted by the Council and of all senior Officers.
- Associated policies have been identified and these now make appropriate references to the Bribery Act.
- There are adequate processes in place to manage the risk of bribery and corruption for procurements managed centrally over £50,000.
- All Members have been provided with training on the Code of Conduct, although evidence for some is not maintained by

- Risk Assessments – Each directorate would benefit from producing a RAG rated “heat map” of key service specific processes as well as recruitment, procurements of less than £50,000, staff training and induction to ensure areas of higher risk are covered. There are currently no such assessments in place.
- Due Diligence – Once the higher risk areas have been identified, each directorate would benefit from documenting the associated measures in place for managing the risk.
- Monitoring & Review – A risk based proportionate approach should be adopted to monitor and review continued compliance. There is currently no formal monitoring in place.
- Training – The Council should consider a risk based authority wide approach to raising staff awareness. We identified less than 10% of officers had completed the Bribery e-learning since 2011 and awareness of the Policy was mixed. We do not know whether this is proportionate, given there is no risk based approach.
- Communication – A programme of continued awareness should be developed for those areas considered to be at higher risk, including those staff without access to the Council’s intranet site.
- Associated Policies – The Kent Code and Gifts and Hospitality guidance did not adequately reference the Bribery Act 2010 or the Council’s Bribery Policy, however Engagement, Organisation, Design and Development (EODD) took immediate steps to rectify. The Anti Money Laundering Policy does not specifically cross refer to the Bribery Policy. (See also Key Strengths below).
- Gifts and Hospitality – We identified a number of gifts that had been accepted that were not in line with the Councils Gifts and Hospitality guidance. In addition refusals of gifts and hospitality were not consistently recorded.

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

- As a preliminary response to this report, top level management are keen

Democratic Services.

- Appropriate whistleblowing guidance is in place to advise staff how to raise a concern.

Areas for Improvement

- The Bribery Policy - The Bribery Policy articulates well what the Bribery Act is, the associated offences, is aligned to the Ministry of Justice guidance, sets a zero tolerance approach and provides responsibilities; however it has not been updated to reflect the Public Contract Regulations 2015.
- Top Level Commitment – Following the introduction of the Bribery Act 2010 policies were introduced or amended, however, despite a declared 'zero tolerance' (see below) there is limited documented evidence to support on-going commitment to its principles.

to embark on a focused proportionate risk based approach to updating and addressing the issues raised.

- Management have been keen to raise awareness at top level forums at the earliest opportunity to enforce the 'tone from the top' as a result of this audit.
- Management have already planned a series of activities to provide proportionate rectification by the end of December 2016.

Summary of management responses

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

Appendix B – Anti-Fraud and Corruption Strategy

| | |
|----------------|---|
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| Version | Version 5 DRAFT |

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A. Policy Statement

1. Fraud against Local Government is estimated to cost ~~£2.47.3~~¹ billion per year. This is a significant loss to the public purse. To reduce these losses Kent County Council is committed to:
 - The highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets.
 - The prevention of fraud and the promotion of an anti-fraud culture.
 - A zero-tolerance-attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
 - ~~The investigation of~~ A risk based response to all instances of actual, attempted or suspected fraud. The Council will seek to recover any losses and pursue appropriate sanctions against the perpetrators. This may include criminal prosecution, disciplinary action, legal proceedings and professional sanctions.
 - The Local Government Fraud Strategy: Fighting Fraud Locally which means the Council will:
 - **Acknowledge** the threat of fraud and the opportunities for savings that exist.
 - **Prevent** and detect all forms of fraud.
 - **Pursue** appropriate sanctions and recover any losses.

Definition of Fraud

2. The Council defines fraud as '~~any criminal~~ activity where deception is used for personal gain or to cause loss to another.' ~~The Fraud Act 2006 introduced a single offence of fraud which~~ can be committed in one of three ways:
 - **Fraud by false representation** – Examples include providing false information on a grant or Blue Badge application, staff claiming to be sick when they are in fact fit and well, or submitting time sheets or expenses with exaggerated or entirely false hours and/or expenses.
 - **Fraud by failing to disclose information** – Examples include failing to disclose a financial interest in a company KCC is trading with, or failing to disclose a personal relationship with someone who is applying for a job at the council.
 - **Fraud by abuse of position** – Examples include a carer who steals money from the person they are caring for, or staff who order goods and services through the Council's accounts for their own use.

¹ [University of Portsmouth \(2016\) Annual fraud indicator 2016](#)

3. While fraud is often seen as a complex financial crime, in its simplest form, fraud is lying. Some people will lie, or withhold information, or generally abuse their position to try to trick someone else into believing something that is ~~not~~ true.

Definition of Corruption

The Council defines corruption as the abuse of entrusted power for private gain; involving the offering, giving, receiving or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party.²

B. Standards

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

Further reading

5. In addition to this strategy there are a range of policies and procedures that help reduce the Council's fraud risks. These include:
- Anti-Bribery Policy
 - Anti-Money Laundering Policy
 - Whistleblowing Policy and Procedure

² [HM Government \(2014\) UK anti-corruption plan](#)

- The Kent Code
- Disciplinary Policy
- Financial Regulations
- Code of Member Conduct

C. Roles and Responsibilities

The Role of Elected Members

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

The Role of Employees

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

15. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

Kent County Council's Commitment

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

D. Prevention

Responsibilities of management

19. The primary responsibility for the prevention and detection of fraud is with management. They must ensure that they have the appropriate internal controls in place, that they are operating as expected and being complied with. They must ensure that adequate levels of internal checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

Internal Audit

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

Working with others and sharing information

22. The Council is committed to working and co-operating with other organisations to prevent fraud and corruption and protect public funds. The Council may use personal information and data-matching techniques to detect and prevent fraud, and ensure public money is targeted and spent in the most appropriate and cost-effective way. In order to achieve this, information may be shared with other bodies responsible for auditing or administering public funds including, but not limited to, the ~~Audit Commission~~Cabinet Office National Fraud Initiative, the Department for Work and Pensions, other local authorities, HM Revenue and Customs, and the Police.

National Fraud Initiative

23. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (to the Cabinet Office) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by ~~other~~ public and private sector bodies. Enquires are made into Aany positive matches (e.g. an employee on the payroll in receipt of housing benefit)~~-are investigated~~.

Training and awareness

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

E. Detection and Investigation

29. The Council is committed to the risk based investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties against the Council and the recovery of funds and assets lost through fraud.
30. Any suspected fraud, corruption or other irregularity should be reported to the Head of Internal Audit. The Head of Internal Audit will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with Council policy and procedures, key investigation legislation and best practice. This will ensure that investigations do not jeopardise any potential disciplinary action or criminal sanctions.
31. Action could include:
- Investigation carried out by Internal Audit staff;
 - Joint investigation with Internal Audit and relevant directorate management;
 - Directorate staff carry out investigation and Internal Audit provide advice and guidance;
 - Referral to the Police.
32. The responsibility for investigating potential fraud, corruption and other financial irregularities within KCC lies mainly (although not exclusively) with Internal Audit. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

F. Raising Concerns and the Whistleblowing Policy

Suspicious of fraud or financial irregularity

33. All suspected or apparent fraud or financial irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.
34. If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also contact the Council's External Auditor, who may be contacted in confidence.
35. The Council's Internal Audit Section can be contacted by telephone on 03000 414500 or by mail to internal.audit@kent.gov.uk.

Whistleblowing Policy

36. Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing Policy and associated procedures.
37. The Council's Whistleblowing Policy encourages individuals to raise serious concerns internally within KCC, without fear of reprisal or victimisation, rather than over-looking a problem or raising the matter outside. All concerns raised will be treated in confidence and every effort will be made not to reveal the individual's identity if this is their wish. However, in certain cases, it may not be possible to maintain confidentiality if the individual is required to come forward as a witness.
38. Employees wishing to raise concerns can obtain a copy of the Whistleblowing policy and procedure on KNet.

G. Conclusion

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

Appendix C - Audit Plan 2016/17 Progress

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

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

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

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

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

Appendix D - Internal Audit Assurance Levels

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

Prospects for Improvement

Very Good

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: Amanda Beer – Corporate Director for Engagement Organisation Design and Development

To: Governance and Audit Committee

Date: 6th October 2016

Subject: KCC Annual Customer Feedback Report 2015/16

Classification: Unrestricted

Summary: This report provides a summary of the compliments, comments and complaints recorded by the Council. The report includes statistics relating to customer feedback received by the Council and a sample of complaints considered by the Local Ombudsman.

Recommendation: The Governance and Audit Committee is asked to note the contents of this report for assurance.

1. Introduction

- 1.1 This is the Council's seventh annual report on compliments, comments and complaints. This report is presented in a new format as requested by the Governance and Audit committee following the previous report presented in October 2015.
- 1.2 The new format of the report will present an overview of the customer feedback received by each of the Directorates but will focus on complaints investigated by the Local Government Ombudsman with some examples of the outcomes.
- 1.3 Customer feedback only relates to those comments, compliments and complaints received from members of the public and our customers. It does not include internal feedback.
- 1.4 A draft of this report has been discussed at all Directorate Management Teams and with the Corporate Management Team; this version incorporates the comments made at those discussions.

2. Progress in refining practices within KCC

- 2.1 Following the decision to tender for a corporate system to log and track all customer feedback in September 2015, the Customer Experience and Assurance Manager has revisited key contacts from within each Directorate to validate the specification and enable staff to input into a specification.

- 2.2 A Customer Feedback Forum has been set up and meets bi-monthly to discuss best practice and share learning from complaints. This forum has representation from those key services across each of the directorates that receive the most customer feedback annually.
- 2.3 Bespoke training has also been piloted. The training was designed and delivered to services within the Growth, Environment and Transport Directorate. It has helped staff to explore how to respond to Customer Feedback and carry out an investigation into complaints received from the public. This has been successful, with services taking part in the training seeing a reduction in complaints volumes and escalations.

3. Overview of Customer Feedback Received

- 3.1 A compliment is an expression of thanks or congratulations or any other positive remark. (Internal compliments are excluded from this process).
- 3.2 A comment is a general statement about policies, practices or a service as a whole, which have an impact on everyone and not just one individual. A comment can be positive or negative in nature. Comments may question policies and practices, make suggestions for new services or for improving existing services.
- 3.3 A complaint is an expression of dissatisfaction, whether justified or not and however made, about the standard or the delivery of a service, the actions or lack of action by the Council or its staff which affects an individual service user or group of users. This is consistent with the definitions used by other local authorities.
- 3.4 The following table gives an overview of the feedback received by KCC as a whole compared with the previous year.

| Year | Complaints | Comments | Compliments | Local Government Ombudsman complaints |
|-------------------------|------------|----------|-------------|---------------------------------------|
| 2014/2015 | 2,944 | 1,561 | 2,345 | 205 |
| 2015/2016 | 3,070 | 1,490 | 2,079 | 185 |
| Difference in volume | +126 | -71 | -266 | -20 |
| % increase/ Decrease | 4% | -5% | -11% | -10% |

Appendix A offers a breakdown of customer feedback received by Directorate and service.

4. Compliance with standards

- 4.1 KCC is committed to acknowledge any complaints received within 3 working days and to provide the customer with a response within 20 working days. As a whole KCC **acknowledged 95%** and **responded to 84%** of complaints within corporate timescales. This compares to last year's responses which were reported to be 91% and 86% respectively.

5. Customer communications channels

- 5.1 Information on 'How to complain' is available on our website and on our Complaints, Comments and Compliments leaflets. The public can provide feedback to the Council through a number of different ways including phone, email and through Social Media.
- 5.2 The breakdown below indicates by percentage which channel customers have chosen to communicate feedback (Compliments, comments & complaints) during 2015/16.

| | Phone | Letter | Email | Comment/ Face to Face | Online | Other |
|-------------------|-------|--------|-------|-----------------------|--------|------------|
| Complaint | 35% | 15% | 38% | 3% | 9% | Negligible |
| Compliment | 12% | 18% | 50% | 2% | 5% | 3% |
| Comment | 10% | 20% | 54% | 13% | 2% | 2% |

- 5.3 The above table shows that email is currently the preferred method of communication for our customers wishing to give us feedback across the board, however when making a complaint customers also show preference for telephone. This may be due the immediacy of being able to speak to someone directly and receive reassurance it will be looked into.

6. Compensation across all complaints received by KCC

- 6.1 In 2015/16, £104,998 was paid in compensation, settlements, changes to the amount we charge and waived charges as a result of complaints to the organisation this includes;
- £82,712 has been paid or waived as part of local resolution in adult services
 - £8,900 has been paid or waived as part of local resolution in children's services
 - £1,347 has been paid out by other services including Libraries, Registrations and Archives, Insurance and Property & Infrastructure.
 - £12,039 additional payments following Local Government Ombudsman Decisions found against KCC.

- 6.2 It is important to note that monies paid out during the 2015/16 financial year may relate to complaints recorded in previous years. This is due to the time that elapses between the date the complaint was lodged and achieving resolution.
- 6.3 This is a decrease of £14,505 from 2014/15 when £119,503 was paid out in settlements or through waived charges.

7. Levels of complaints to the standards committee (Member complaints)

Complaints recorded in 2015/16

- 7.1 During 2015/16 the Monitoring Officer has responded to 10 complaints of alleged misconduct of the breach of the Elected Member Code of Conduct. All of the complaints were dismissed.

| Number of Complaints | | | Outcome |
|-----------------------------|----------------|----------------|---|
| 2013/14 | 2014/15 | 2015/16 | |
| 13 | 22 | 10 | No Action. Dismissed by the Monitoring Officer |

8. The Local Government Ombudsman complaints review 2015/16

Overview of Ombudsman

- 8.1 In cases where a customer is unhappy with the responses received about their complaint from the Council they can exercise their right to involve the Local Government Ombudsman. The Ombudsman will investigate cases where a customer has exhausted the Council's own complaints policy and feel that their case has not been appropriately heard or resolved.
- 8.2 Each year, in June/July, the Local Government Ombudsman issues an annual review to each local authority. In her letter she sets out the number of complaints about the authority that her office has dealt with and offers a summary of statistics to accompany this.
- 8.3 The annual review statistics are publically available, allowing councils to compare their performance on complaints against their peers; copies of the Annual Review letter as well as any published Ombudsman complaints are issued to the Leader of the Council and Head of Paid Service to encourage more democratic scrutiny of local complaint handling and local accountability of public services.

- 8.4 Decision statements made in 2015/16 will have been published on the Local Government Ombudsman website three months after the date of the final decision. The information published will not name the complainant or any individual involved with the complaint. Cases in which the complainant, despite redaction of names, can be easily identified are not published.

9. KCC Performance – Ombudsman complaints

- 9.1 It should be noted that there will be discrepancies between the volume recorded by the Local Government Ombudsman and the authority. This is due to the Local Government Ombudsman recording complaints that it does not progress to Kent County Council, as it is able to resolve the issue at first point of contact, either through referral to the Council or it is identified as out of jurisdiction.
- 9.2 During 2015/16 KCC received a total of **185** complaints and enquiries, which includes **74** in which the customer was directed back to the Council to seek initial resolution. This is a decrease of 10% on 2014/15, when the Council received 205 complaints and enquiries, including 75 in which the customer was directed back to the Council to seek initial resolution.
- 9.3 The level of complaints received by KCC for the size of population, volume of services and interaction is low but each complaint is an opportunity to learn from our customers and improve our systems. We need to focus on those complaints that are upheld to ensure that lessons are learned.
- 9.4 The authority did not receive any Maladministration Reports in this year, which is seen as a positive for the authority.
- 9.5 The Ombudsman's report noted that the national average that the Ombudsman upheld is **51%** of complaints they investigated, this is up nationally from 46% last year. Kent County Council's average is **55%**, this is an increase on 48.5% in 2014/15.

10. Local authority report – Kent County Council

- 10.1 For further information on interpretation of statistics click on this link to go to <http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

Complaints and enquiries received

| Year | Adult care services | Benefits and tax | Corporate and other services | Education and children's services | Environmental services | Highways and transport | Housing | Planning and development | Total |
|---------|---------------------|------------------|------------------------------|-----------------------------------|------------------------|------------------------|---------|--------------------------|-------|
| 2013/14 | 47 | 1 | 6 | 102 | 10 | 23 | 1 | 4 | 194 |
| 2014/15 | 60 | 0 | 8 | 96 | 14 | 25 | 1 | 1 | 205 |
| 2015/16 | 62 | 0 | 5 | 98 | 7 | 10 | 2 | 0 | 185 |

Decisions made

| Local authority | <u>Detailed Investigation Carried out</u> | | Advice given | Closed after initial Enquiries | incomplete/Invalid | Referred back for local resolution | Total |
|-----------------|--|------------|--------------|--------------------------------|--------------------|------------------------------------|-------|
| | Upheld | Not upheld | | | | | |
| 2013/14 | 36 | 41 | 1 | 57 | 12 | 44 | 191 |
| 2014/15 | 32 | 34 | 3 | 55 | 6 | 75 | 205 |
| 2015/16 | 34 | 28 | 1 | 44 | 3 | 74 | 185 |

11. Ombudsman Complaints – Themes and Outcomes

11.1 The following section examines some cases that were investigated by the Ombudsman. The Complaint and their Decisions are taken from the Local Government Ombudsman's website where all decisions (in which the complainant cannot be identified) are published.

11.2 Education and Young People Services

| | Kent Test/Grammar School appeal | School Admissions appeal | Home to School Transport | Special Educational Needs | Total |
|--|--|---------------------------------|---------------------------------|----------------------------------|--------------|
| Upheld | 1 | 1 | 1 | 3 | 6 |
| Not upheld | 1 | 7 | 2 | 2 | 12 |
| Closed: out of jurisdiction/no further action or withdrawn | 3 | 6 | 3 | 3 | 15 |

11.3 Not upheld example – Home to School Transport

Complaint

The complainant, whom I will refer to as Mr X, complains the Council did not give his son (Y) a place at his preferred school (school J).

He says the Council gave no proper information to explain how a parent should provide evidence to support an application made on special grounds. He says because of this the Council did not give his application for Y a high enough priority.

He says the appeal panel did not consider this independently or fairly.

He says the Council still has not considered the evidence he has now given and so Y is lower on the school's waiting list than he should be.

Decision & Outcome

I have seen no evidence of fault by the Council when it did not give Mrs X's application category 4 in January 2015.

I have seen no fault in the way the panel considered the appeal. It decided the Council had properly applied the admission arrangements. It decided the Council's decision not to offer a place to Y was not one no reasonable authority could have made. It reached a decision properly and the Ombudsman has no right to question its decision.

The Council has now considered the evidence provided by a Mr X for category 4 and decided not to award it. Again this is a decision for the Council and the Ombudsman has no right to question it.

11.4 Upheld example – Special Educational Needs

Complaint

The complainant, whom I shall refer to as Mrs X, complains:

- The school previously attended by her son, whom I shall refer to as Y, failed to provide education in-line with his statement of special educational needs;
- The Council failed to appropriately respond to concerns about the provision at her son's school; and
- The Council failed to provide full-time education for her son following his exclusion from school.

Decision & Outcome

The Council acted without fault when it responded to concerns about the special educational provision at the school of the complainant's son. However the Council

did not make an offer of full time education after the child's exclusion. The Council agrees to pay £400 in recognition of missed education.

11.5 Growth, Environment and Transport

| | Household Waste Recycling Centres | Highways & Transport | Planning | Total |
|---|--|---------------------------------|-----------------|--------------|
| Upheld | 0 | 1 | 0 | 1 |
| Not upheld | 1 | 2 | 1 | 4 |
| Closed: out of jurisdiction/no further action | 3 | 7 | 0 | 10 |

11.6 Not Upheld example – Household Waste Recycling Centre

Complaint

The complainant, whom I shall refer to as Mr C, complains the Council rejected his application for vehicle vouchers to use its household waste and recycling sites. Mr C says due to the Council's fault he cannot dispose of some old furniture, a fridge and other electrical items currently in his garden.

Decision & Outcome

The Council's decision is in accordance with its policy and I have seen no evidence of fault in its consideration of Mr C's application. I have completed my investigation and do not uphold Mr C's complaint as I have found no evidence of fault by the Council.

Note: All of the complaints relating to the Household Waste Recycling Centre related to the policy which restricts vehicular access to the sites by height or commercial vehicles.

11.7 Upheld example – Highways & Transportation

Complaint

Mr B complained that Kent County Council (the Council) removed bollards from outside his property without justification and due to pressure from other residents. Mr B says the Council installed the bollards to assist with access to his property as he is disabled.

Decision & Outcome

The Council has agreed, within two months, to carry out a complete review of the parking and access problems outside Mr B's property, taking into account his needs as a disabled person along with the needs of the other residents in the street. The

Council should keep adequate records of the review, including the information obtained and considered and the reasons for its final decision.

The Council has also agreed to pay Mr B £150 for his time and trouble in pursuing the complaint.

11.8 Strategic and Corporate Services

| | Property | Staff | Total |
|---|----------|-------|-------|
| Upheld | 0 | 0 | 0 |
| Not upheld | 0 | 0 | 0 |
| Closed: out of jurisdiction/no further action | 1 | 1 | 2 |

Strategic Services received notice of two complaints both of which were closed due to being out of jurisdiction.

11.9 Social Care, Health & Wellbeing

| | Adults | Childrens | Total |
|--|--------|-----------|-------|
| Upheld | 18 | 9 | 27 |
| Not upheld | 8 | 4 | 12 |
| Closed: out of jurisdiction/no further action or withdrawn | 6 | 4 | 10 |

11.10 Adult Social Services complaints

| Complaint theme | Volume |
|-------------------------------|--------|
| Provision of care/Assessments | 17 |
| Financial | 9 |
| Equipment | 3 |
| Safeguarding | 1 |
| Premature Complaints | 2 |

11.11 Not Upheld example – Adult Social Care

Complaint

An advice agency complains on behalf of Miss X about the payment of residential care fees for her late mother Mrs X. In particular Miss X says the Council should pay for a period of four weeks' care for her late mother when its first assessment deemed her ineligible for assistance.

Decisions

There is no evidence of fault in the way the Council undertook its first assessment of Mrs A's eligible needs. There is no reason why the Council should reimburse the

fees for that period of residential care which the family arranged privately. The Council saw evidence from the care home records that Mrs A had deteriorated before her reassessment and funded her care accordingly. I do not uphold the complaint.

11.12 Upheld example – Adult Social Care

Complaint

The complainants, who I will call Mr & Mrs D, complain on behalf of their mother, Mrs E. Mr & Mrs D say the Council failed to give adequate support following Mrs E's fall at home, meaning Mrs E incurred the cost of extra care to keep her safe.

Decisions

The Council failed to support Mrs E following a fall at home resulting in her paying for extra care support. The Council will refund Mrs E, and will provide guidance to its staff to improve future practice.

11.13 Children Social Service Complaints

| Complaint theme | Volume |
|--------------------------------|---------------|
| Safeguarding | 5 |
| Provision of care | 6 |
| Procedure & records management | 3 |
| Financial | 2 |
| Premature Complaint | 1 |

11.14 Not Upheld example – Children Social Care

Complaint

The complainant, whom I shall refer to as Mrs B, complains about the care and treatment of her son, whom I shall refer to as J, by the East Kent Hospital Trust (the Hospital) in December 2012.

In particular, Mrs B complains about the Hospital's decision to make a child protection referral to Kent County Council (the Council) regarding J. Mrs B says the Hospital failed to explain why it made the referral.

She also complains that the Hospital carried out skeletal and eye examinations on J without administering sedatives. She says the examinations distressed J and caused bruising, which may have affected the Council's child protection investigations.

Mrs B says the Council subsequently carried out a prolonged and unnecessary child protection investigation into her children. She says the child protection investigations

were unnecessary as the Hospital's examinations found no evidence of non-accidental injury to J.

Mrs B says the Council failed to tell her the outcome of the child protection investigation, and failed to send her letters or documents following the meetings she attended. Mrs B said the documents she has received contain factual inaccuracies.

Decision

I have decided not to uphold these complaints. This is because I have found no fault in the Hospital's decision to make the child protection referral to the Council, or in how it undertook the examinations for shaken baby syndrome.

I have also found no fault in how the Council investigated the child protection concerns, or in its decision to offer services to the family under section 17 of the Children Act 1989.

Because I have found no fault, I cannot question the merits of the Hospital's or Council's decisions, or comment on the injustice Mrs B and her family say they have suffered as a result of the child protection investigation.

11.15 Upheld example – Children Social Care

Complaint

Miss B complains that the Council failed to support her when she was homeless with a young baby.

Decision and Outcome

The Council was wrong to place Miss B in Bed and Breakfast accommodation because this is unsuitable for a young person. The Council did not explain to Miss B's representative how he could make a complaint to it. However, the Council did advise Miss B of her rights as a young homeless person.

The Council has agreed to my recommendation that it:

1. Apologise to Miss B for placing her in B&B when this is not suitable
2. Review its service so it takes into account government guidance that it should not place young people in B&B.
3. Review how it helps young people decide whether to accept housing help from it or from the housing authority, so that it ensures that it offers an advocate.
4. Remind staff that a complaint may be made on behalf of a young person with his or her authority.

- 11.16 Detailed reports examining Social Care customer feedback are presented to both the Adults and Children Social Care and Health Committees.

12. LESSONS LEARNED

- 12.1 Where the Ombudsman has made a decision against the Council, steps are taken by the service to ensure that any lessons learned are applied across the service to improve the customer experience and avoid any further complaints of a similar nature.

13. RECOMMENDATIONS

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

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Appendix A – Directorate overview of Customer Feedback Received

Education and Young People's Services

All Feedback Reported

| | Complaints | Comments | Compliments | Local Government Ombudsman enquiries & complaints |
|----------------|------------|------------|-------------|---|
| 2015/16 | 171 | 199 | 54 | 32 |
| 2014/15 | 147 | 15 | 75 | 33 |

The below table compares the number of complaints received in 2015/16 with those received in 2015/15 and 2013/14 by service.

| Service | 2013/2014 | 2014/2015 | 2015/2016 |
|---|------------|------------|------------|
| Community Learning & Skills (was Adult Education) | 103 | 76 | 70 |
| Education Services | 24 | 67 | 101 |
| Grads Kent | 1 | 4 | 0 |
| Total Complaints | 128 | 147 | 171 |

Growth, Environment and Transport

All Feedback Reported

| | Complaints | Comments | Compliments | Resolved Local Government Ombudsman enquiries & complaints |
|----------------|-------------|------------|-------------|--|
| 2015/16 | 1450 | 485 | 1112 | 15 |
| 2014/15 | 1603 | 600 | 1266 | 22 |

The below table compares the number of complaints received in 2015/16 with those received in 2015/15 and 2013/14 by service.

| Service | 2013/2014 | 2014/2015 | 2015/2016 |
|---|-------------|-------------|-------------|
| Community Safety | 30 | 9 | 6 |
| Country parks | 23 | 49 | 49 |
| Libraries, Registrations and Archives | 205 | 199 | 203^ |
| Highways and Transportation and Waste Management | 1280 | 1314 | 875 |
| Environment (eg Heritage, Environment & Coast, Kent AONB, Planning) * | | | 292 |
| Public Right of Way | 7 | 1 | 5 |
| Kent Scientific Services | 14 | 8 | 13 |
| Kent Sport | 6 | 3 | 1 |
| Trading Standards | 5 | 20 | 6 |
| Total Complaints | 1570 | 1603 | 1450 |

(* Data not previously collected) (^ Q1 data not captured)

Social Care, Health and Wellbeing

All Feedback Reported

| | Complaints | Comments | Compliments | Resolved Local Government Ombudsman enquiries & complaints |
|----------------|------------|------------|-------------|--|
| 2015/16 | 924 | 702 | 606 | 48 |
| 2014/15 | 776 | 849 | 835 | 49 |

The below table compares the number of complaints received in 2015/16 with those received in 2015/15 and 2013/14 by service.

| Service | 2013/2014 | 2014/2015 | 2015/2016 |
|---|------------|------------|------------|
| Adult Social Services | 387 | 537 | 662 |
| KSAS | 30 | 9 | 11 |
| Specialist Children's Services | 327 | 228 | 245 |
| Public Health & Kent Drugs and Alcohol Team & Supporting People | 5 | 2 | 6 |
| Total Complaints | 749 | 776 | 924 |

Strategic and Corporate Services

All Feedback Recorded

| | Complaints | Comments | Compliments | Resolved Local Government Ombudsman enquiries & complaints |
|----------------|------------|------------|-------------|--|
| 2015/16 | 525 | 100 | 300 | 2 |
| 2014/15 | 418 | 97 | 169 | 4 |

The below table compares the number of complaints received in 2015/16 with those received in 2015/15 and 2013/14 by service.

| Service | 2013/2014 | 2014/2015 | 2015/2016 |
|--------------------------------|------------|------------|------------|
| Business Service Centre * | | | 17 |
| Communications and Engagement | 3 | 3 | 0 |
| Finance and Procurement | 54 | 373 | 60 |
| FOI *** | | | 21 |
| Gateways and Contact Point | 54 | 9 | 49 |
| Insurance * | | | 295 |
| Total Facilities Management | | | 40 |
| Legal | 5 | 0 | 0 |
| Property and Infrastructure ** | 11 | 13 | 35 |
| Schools Personnel Service | 13 | 20 | 8 |
| Total Complaints | 140 | 418 | 525 |

(* Data not previously collected) (** Property and ICT figures combined to reflect new service heading) (***) Figures only captured for Q4)

By: Ben Watts, General Counsel (Interim)
 To: Governance and Audit Committee – 6th October 2016
 Subject: **CORPORATE LAW AND ASSURANCE TEAM**
 Classification: Unrestricted

Summary: This report provides an update regarding the recent creation of the client-side functions for Legal Services.

FOR NOTING FOR ASSURANCE

Introduction and background

1. On 21st March 2016, the Cabinet took a decision to proceed with the formation of an Alternative Business Structure (ABS) for the delivery of legal services. On 27th April 2016, Geoff Wild in his then role as Director of Governance and Law attended the Trading Activities Sub-Committee to explain to Members the proposed governance arrangements that flowed from the Cabinet decision.
2. Mr Wild provided a report and confirmed that the new business would conform to the “*Protocol for Companies in which KCC has an Interest*” once the draft revisions to the Protocol received approval from the Governance and Audit Committee at its next meeting.
3. At that meeting, Members also asked for assurance in respect of the impact of the creation of the ABS on the overall Legal Services operation including those members of staff who were to remain in-house. This should include steps taken to ensure staff retention. It was therefore agreed that a progress report would be presented to the Governance and Audit Committee at its meeting in October 2016.
4. This report provides an update for Members regarding the creation of the client-side functions for the Council which have been established over recent months. The progress of the company-side has been subject to scrutiny from the Policy and Resources Cabinet Committee and the Commissioning Advisory Board and they are currently in a period of significant activity including the key stage of their application for authorisation as an ABS to the Solicitors Regulation Authority. Accordingly, a further report is proposed for the next meeting of this Committee to provide the assurance and detail requested in relation to the company which will have significant updates at that time.

Corporate Law and Assurance Team

5. In taking the decision to proceed with the creation of the ABS, Cabinet also agreed a new management structure for the Governance and Law function. This provided for a separation between the management team of what will become the company and the team that would advise the Council on corporate and strategic legal issues whilst also commissioning and managing the contract with the company.
6. The Cabinet decision provided for a managed transition to the new arrangements to ensure that potential conflicts of interest were avoided and managed whilst ensuring that both the commissioner and provider elements of the project continued to progress. Structure charts for the respective arrangements for the in-house function is included for ease of Member's reference at Appendix 1.
7. The structure and staffing of the Corporate Law and Assurance (CLA) team has been confirmed by the Personnel Committee. As a result, Ben Watts was appointed as General Counsel (Interim) effective from 1 July 2016 to provide leadership in relation to corporate legal issues.
8. Additionally, over the past two months, Ben Watts has also taken over a number of the roles previously carried out by Geoff Wild to allow him to focus on his new role as Chief Executive of the new company. These include the statutory Monitoring Officer role, membership of Corporate Board/CMT, responsibility for Democratic Services and the Information Resilience and Transparency Team, the function of SIRO (Senior Information Risk Owner) and legal advisor to the full Council, committee meetings and Members. On 15 October 2016, after the results of the forthcoming by-election are announced, he will also become the County Returning Officer.
9. The transition of these roles has carefully considered organisational needs and the development of the respective council and company teams. Members have previously asked for assurances around the new management arrangements. Geoff Wild and Ben Watts have worked through a transition plan regarding the handover of the Monitoring Officer, County Returning Officer and Senior Information Risk Owner roles.
10. The CLA team has been incrementally built over the past three months and became fully operational on 5th September 2016. The team has been drawn entirely from existing Kent Legal Services staff identified as having the appropriate skills, expertise and attitude to deliver the new roles. The transferring team comprises four lawyers and two support staff who will be further assisted by two apprentices who are currently being recruited. To ensure retention and avoid uncertainty, these permanent staff were flexibly deployed into their new roles.
11. In creating the CLA Team, the project team who presented to Cabinet recognised that training and development for the team was as important as the development and training of the staff who would be transferring to the company. The General Counsel and CLA roles are unique within local

government and the Council is supporting these staff through professional development to define and deliver these exciting and challenging new roles successfully.

12. The CLA team's primary functions are to:
 - Provide advice on legal issues and legal risk to the Council's Members and senior officers
 - Manage the arrangements and contract between the company and the Council acting as commissioner of all legal services and advice
 - Retain and manage the Council's significant contracts and deeds
13. Whilst the ABS is being developed, the CLA team has a crucial role in working with both the Council and the ABS to ensure that the future provision by the ABS back to KCC is both better and cheaper. The development phase of the ABS provides an excellent opportunity for the CLA and KLS teams to work together to redesign and improve the service delivery. This has included joint workshops on process and workflow and survey activity to understand client and staff perspectives.
14. Ben Watts attended the Challenger Group to provide an outline of the expectations that senior officers and staff can have in relation to the new legal service. Sharing the same platform, James Pigott from the company side talked about the opportunities and transformation that were being planned for the new business. Importantly, both of them explained the change that would be required from the business and the Council in terms of ways of working. Further joint sessions are planned for Challenger Group and officers throughout the council to ensure service continuity for front-line services across KCC.
15. The appointment of the General Counsel (Interim) and the creation of the Corporate Law and Assurance Team carefully reflected the views expressed by Members of this Committee (and Cabinet, Policy & Resources Cabinet Committee and the Commissioning Advisory Board) in relation to staff retention, transition and knowledge transfer. The identified staff for this part of the project have been successfully deployed into their new roles and retained.

Recommendations

16. It is recommended that Members note the report for assurance.

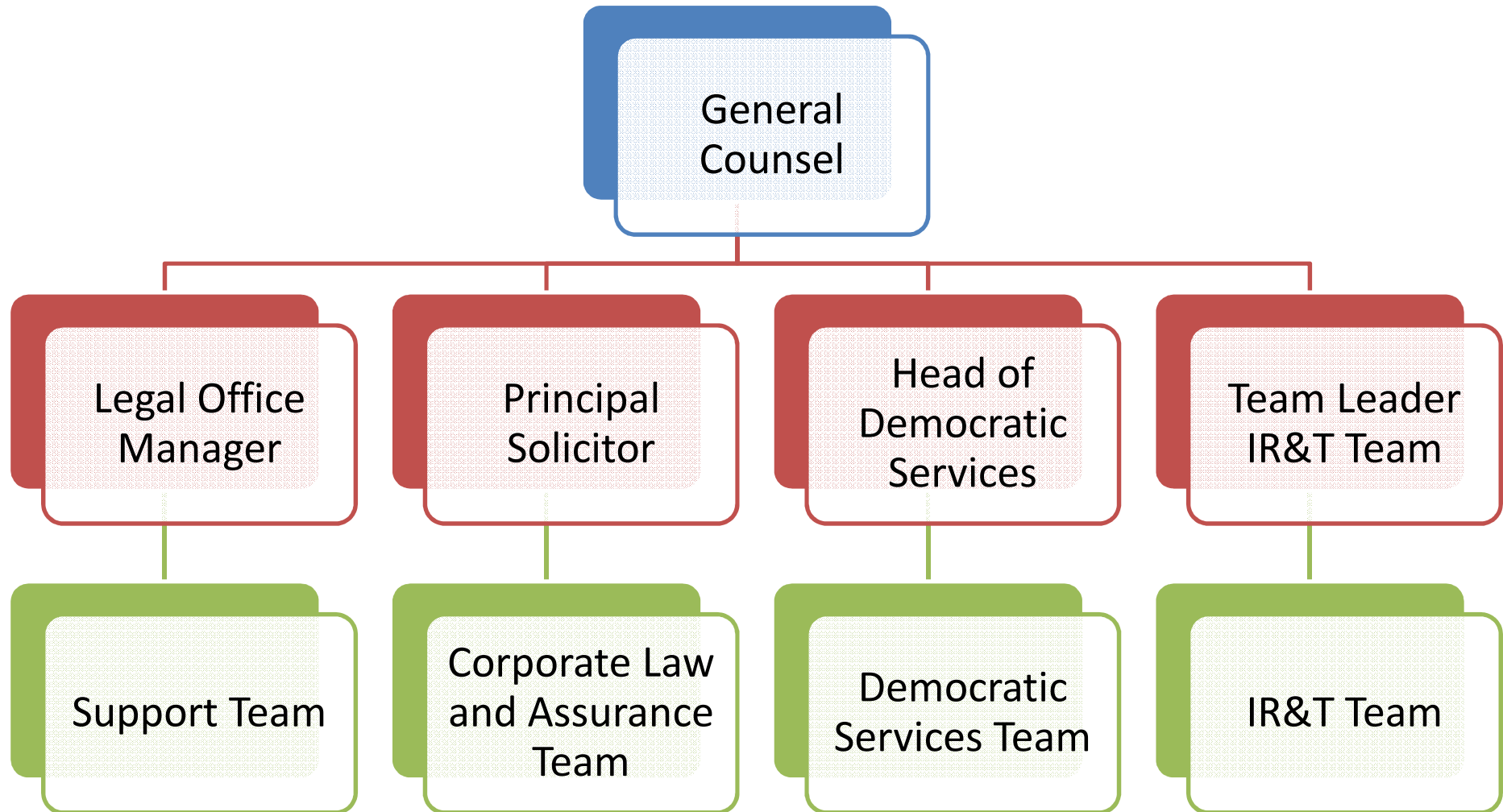
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Structure

Governance and Law

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