

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 11th April, 2017

10.00 am

**Council Chamber, Sessions House, County Hall,
Maidstone**





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 11th April, 2017, at 10.00 am
Council Chamber, 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 (14)

Conservative (8)	Mr R L H Long, TD (Chairman), Mr D L Brazier, Mr S C Manion, Mr R A Marsh and Mr J E Scholes	Mr R J Parry (Vice-Chairman), Mr E E C Hotson, Mr A J King, MBE,
UKIP (2)	Mr M Heale and Mr C P D Hoare	
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 (Pages 5 - 14)
Committee – 27 January 2017
Trading Activities Sub-Committee – 28 February 2017 (To Note)
5. Committee Work and Member Development Programme (Pages 15 - 18)
6. Internal Audit and Counter Fraud Plan 2017-18 (Pages 19 - 56)
7. Internal Audit and Counter Fraud Progress Report (Pages 57 - 110)
8. Treasury Management Update (Pages 111 - 120)
9. Revised Accounting Policies (Pages 121 - 122)
10. Updated Financial Regulations (Pages 123 - 164)
11. External Audit - Audit Plans for Kent County Council and Kent Superannuation Fund 2016-17 (Pages 165 - 206)
12. External Audit Fee Letter 2017-18 (Pages 207 - 212)
13. Fraud Law and Regulations and Going Concerns Considerations (Pages 213 - 230)
14. Other items which the Chairman decides are urgent
15. Motion to excluded the public

That under Section 100A of the Local Government Act 1972 the public be excluded from the meeting on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 Part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the public).

16. Senior Information Risk Owner (SIRO) Update (Pages 231 - 234)

John Lynch
Head of Democratic Services
03000 410466

Monday, 3 April 2017

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

TERMS OF REFERENCE

Governance and Audit Committee

15 Members

Conservative: 8; UKIP: 3; Labour: 2; Liberal Democrat: 1; Independent: 1.

The purpose of this Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and
2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

On behalf of the Council this Committee will ensure the following outcomes:

- (a) Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- (b) The Council's Corporate Governance framework meets recommended practice (currently set out in the CIPFA/SOLACE Good Governance Framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.
- (c) The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.
- (d) The appointment and remuneration of External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- (e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- (f) The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- (g) Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- (h) Accounting policies are appropriately applied across the Council.

- (i) The Council has a robust counter-fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.
- (j) The Council monitors the implementation of the Bribery Act Policy to ensure that it is followed at all times.

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 25 January 2017.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr R H Bird, Mr D L Brazier, Mrs M E Crabtree (Substitute for Mr A J King, MBE), Mr C P D Hoare, Mr R A Latchford, OBE (Substitute for Mr M Heale), Mr S C Manion, Mr R A Marsh, Mr B Neaves, Mr J E Scholes, Mr D Smyth and Mr M E Whybrow

ALSO PRESENT: Mr J D Simmonds, MBE

IN ATTENDANCE: Mr A Wood (Corporate Director of Finance and Procurement), Mr N Vickers (Business Partner (Pension Fund)), Mr J Lynch (Head of Democratic Services), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager), Mr R Patterson (Head of Internal Audit) and Mr A Tait (Democratic Services Officer)

ALSO PRESENT was Mr Andy Conlan from Grant Thornton UK LLP

UNRESTRICTED ITEMS

1. Minutes - 6 October 2016

(Item 4)

RESOLVED that the Minutes of the meeting held on 6 October 2016 are correctly recorded and that they be signed by the Chairman.

2. Committee Work and Member Development Programme

(Item 5)

(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) The Committee asked for a report on Information Governance to be presented to its next meeting in April 2017.

(3) RESOLVED that subject to (2) above, approval be given to the proposed Committee work and Member Development programme to January 2018.

3. Corporate Risk Register

(Item 6)

(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) During discussion of this item, Mr Hoare raised a question in respect of Risk CRR28. It was agreed that this issue would be investigated by Internal Audit, who would report on the outcome to a future meeting of the Committee. The Head of Internal Audit requested that Mr Hoare should supply such information as he held as soon as possible.

(3) Members of the Committee commented that consideration should be given to re-opening Risk CRR1 in consultation with the General Counsel and to highlighting the potential consequences for Risk CRR9 if the NHS and the CCGs were unable to deliver fully on their commitments.

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

4. Review of KCC's Risk Management Policy and Strategy
(Item 7)

(1) The Director of Strategy, Policy, Relationships and Corporate Assurance presented the revised draft Risk Management Policy and Strategy for approval. He explained that no amendments were proposed.

(2) RESOLVED that approval be given to the Risk Management Policy and Strategy for the year 2017.

5. Treasury Management six month review 2016-17
(Item 8)

(1) The Head of Financial Services presented the Treasury Management 6 Month Review, drawing particular attention to the conversion by Barclays Bank of Lender's Option Borrower's Option Loans (LOBOs) into fixed rate loans.

(2) The Committee agreed that future reports would provide the most up-to-date figures instead of following the cycle as had hitherto been the case.

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

6. Debt Management
(Item 9)

(1) The Head of Financial Services introduced a report on the County Council's debt position.

(2) The Head of Financial Services agreed to send a briefing note to all Members of the Committee giving further details of the reasons that the total sundry outstanding debt under 60 days old currently stood at 71.2%.

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

7. Update on Savings Programme

(Item 10)

(1) The Corporate Director of Finance and Procurement reported on progress towards the 2016/17 and 2017/18 budget savings. He said that it was expected that the year 2016/17 would see an overspend of £5m, including £2m on the Asylum Service which the County Council aimed to get back in full from the Home Office in 2017/18.

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

8. External Audit Update January 2017

(Item 11)

(1) Mr Andy Conlan from Grant Thornton UK LLP summarised progress on external audit work for 2016/17 as well as the emerging issues and developments and technical matters set out in the report.

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

9. Effectiveness of Internal and External Audit Liaison

(Item 12)

(1) The Head of Internal Audit summarised the effectiveness of the liaison arrangements between Internal and External Audit. He said that liaison was working effectively, and that KCC was one of very few Authorities which complied with all 54 professional standards set by the Institute of Internal Auditors.

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

10. Internal Audit and Counter Fraud Progress Report

(Item 13)

(1) The Head of Internal Audit summarised the outcomes of Internal Audit and Counter Fraud activity for the 2016/17 financial year to date.

(2) The Committee asked the Chairman to write on its behalf to the Chairman of the Policy and Resources Cabinet Committee on the discrepancy between the Head of Internal Audit's reported views of the TFM Help Desk prospects for

improvement and the information which members said had been reported to that Committee.

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

- (a) progress and outcomes against the 2016/17 Audit Plan its proposed amendments;
- (b) progress and outcomes in relation to Counter Fraud activity;
- (c) achievements against the Internal Audit and Counter Fraud Key Performance Indicators;
- (d) Management's performance in implementing agreed actions from previous audits; and
- (e) the overall assurances provided in relation to the Council's control and risk environment as a result of Internal Audit and Counter Fraud work completed to date.

11. Review of the Committee's Terms of Reference
(Item 14)

(1) The Head of Internal Audit reported that the annual review of the Committee's Terms of Reference had resulted in no amendments being proposed.

(2) RESOLVED that approval be given to the continuation of the Committee's Terms of Reference as set out in the Appendix to the report.

GOVERNANCE AND AUDIT COMMITTEE TRADING ACTIVITIES SUB - COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee Trading Activities Sub - Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Tuesday, 28 February 2017.

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

ALSO PRESENT: Mr R H Bird, Miss S J Carey and Mr D Smyth

IN ATTENDANCE: Mr B Watts (General Counsel), Mr A Wood (Corporate Director of Finance and Procurement), Miss E Feakins (Chief Accountant), Ms B Gibbs (Accountant), Ms S Buckland (Audit Manager), Mr G Wild (Chief Executive (Designate), Invicta Law Ltd) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

1. Minutes - 27 April 2016

(Item 3)

RESOLVED that the Minutes of the meeting held on 27 April 2017 are correctly recorded and that they be signed by the Chairman

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

(Item 4)

(1) The Chairman informed the Committee that his company had acted for minority shareholders in *Digital Contact Ltd*. This did not constitute a disclosable pecuniary interest.

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

(3) In response to a query about the County Council's non-statutory financial contributions to *Visit Kent* and *Locate in Kent*, it was agreed that relevant reports to the Cabinet Committee setting out the rationale for these contributions would be sent to the Members of the Sub-Committee.

(4) The Chief Accountant agreed to write to the Members of the Sub-Committee and to Mr Bird in order to clarify the current status of *Goetec Limited*.

(5) The Sub-Committee noted that the majority of the Investment Companies in which the County Council was purchasing shares from the allocation of Regional Growth Fund programmes, were operating at a loss and that in some cases the auditors were questioning whether they could continue as a going concern. It therefore asked the Democratic Services Officer to send the Minutes of the meeting

to the Chairman of the Growth Economic Development and Communities Cabinet Committee in order to draw this to his attention.

- (6) RESOLVED that subject to paragraphs (3-5) above, the latest available Statutory Accounts for those companies in which KCC has an interest be noted for assurance.

3. Consolidated Commercial Services 2015/16

(Item 5)

(1) The Chief Accountant explained that Commercial Services reported the consolidated Commercial Services position for 2015/16. These were split into *Commercial Services Kent Ltd*, which was the “Teckel” company that was able to trade with other local authorities and *Commercial Services Trading Ltd* which could trade more widely.

- (2) RESOLVED that the latest available Statutory Accounts for Commercial Services be noted for assurance.

4. East Kent Opportunities LLP

(Item 6)

RESOLVED that the content of the report be noted for assurance together with the East Kent Opportunities LLP Annual Report and Financial Statements for 2015/16 as set out in the Appendix to the report.

EXEMPT ITEMS

(Open Access to Minutes)

(Members resolved under Section 100A of the Local government Act 1972 that the public be excluded from the meeting for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act.)

5. Invicta Law Ltd

(Item 8)

(1) Mr R L H Long informed the Sub-Committee that he was a non-remunerated member of the Shareholder Board of Invicta Law Ltd which the council used to manage the investment in the company.

(2) The Chief Executive of Invicta Law Ltd briefly introduced the report which set out the progress of the initiative, setting out the policies and procedures that were in place for Invicta Law Ltd. He confirmed that the correct technical advice had been taken.

(3) The Audit Manager informed the Committee that Internal Audit had not been involved in the general arrangements for Invicta Law Ltd except in the development of its Anti-Money Laundering Policy and Guidance.

(4) The Chief Executive informed the Sub-Committee that the Solicitors Regulation Authority Licence would come into force on 1 April 2017 and that the Launch date for Invicta Law Ltd would be 1 June 2017. This would enable all the processes to be tested and become embedded.

(5) The Chief Executive confirmed that Invicta Law Ltd would be holding client money in conformity with Solicitors Account rules.

(6) RESOLVED that the progress of the initiative be noted together with the assurance that adequate policies and procedures are in place for Invicta Law Ltd.

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

To: Governance and Audit Committee – 11th April 2017

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

Classification: Unrestricted

Summary: This report provides an update on the forward Committee Work programme following 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 April 2018. 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. With likely changes to the membership of the Committee after the May elections it would appear sensible to tailor a new development programme from July 2017 onwards.

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	Apr - 17	Jul - 17	Oct - 17	Jan -18	Apr -18
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				
LATCo Policies	AW	If informed of material changes to policies				

Committee Work Programme

Appendix 1

Category / Item	Owner	Apr 17	Jul 17	Oct 17	Jan 18	Apr 18
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: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 11th April 2017
Subject: **Internal Audit and Counter Fraud Plan 2017-18**
Classification: Unrestricted

Summary: This report details the proposed Internal Audit and Counter Fraud Plan for 2017-18

FOR DECISION

Introduction

1. This report sets out the outline Internal Audit and Counter Fraud Plan for 2017-18 detailing a breakdown of audits and counter fraud work and an analysis of corresponding resources.
2. As a reminder, the Council is required under the Accounts and Audit Regulations 2015 to maintain an adequate and effective system of internal audit. This plan demonstrates the utilisation and coverage of such resources to discharge this responsibility and conforms to Public Service Internal Audit Standards
3. The outline plan is detailed in Appendix 1.
4. The outcomes from the 2017-18 plan will provide:
 - Overall opinion and assurance to support the Annual Governance Statement
 - Assurance against the mitigation of key corporate risks
 - Coverage of critical systems of the Council including finance, contract / commissioning and IT assurance
 - Integrated work around value for money and efficiency opportunities
 - Underpinning counter fraud processes and activity as well as resources focused on reactive work such as special investigations
 - On-going advice and information on controls to management
 - Follow up on the progress on the implementation of audit issues

Development of the Internal Audit and Counter Fraud Plan

5. The plan has been developed through a risk based planning process that has incorporated the following elements:
 - Discussions with Portfolio Holders, Corporate Directors (including CMT) and key Heads of Service on emerging risks and concerns.

- Drawing on audit cumulative knowledge and experience to provide assurance over areas identified as high priority or high risk. These have been mapped, where appropriate against the corporate risk register together with alternative sources of independent assurance
 - Work to evaluate Corporate Governance which contributes to the Head of Internal Audit's overall assurance on corporate governance arrangements which in turn informs the Annual Governance Statement
 - Work to provide assurance to the Corporate Director of Finance and Procurement that controls are in place and operating effectively for a selection of key financial and contracting/ commissioning systems
 - Management requests for assurance on particular areas of concern.
 - Previous cyclical audit work and the need for formal follow up
 - Proactive fraud work including maintaining the sustainability of the DCLG funded Kent Intelligence Network (KIN) which has the potential to reduce fraud and error in local taxation systems
6. In relation to planning of IT audit coverage, our new outsourced provider - BDO LLP – are undertaking an IT audit needs analysis and risk assessment for the start of their contract on the 1st April.
7. The combination of these elements has been the development of a plan that combines assurance over core systems and governance with key corporate risks. This is demonstrated in Appendix 1.
8. In particular, the 'big audit themes' for 2017/18 will be :
- Independent assurance over the delivery of savings and outcomes from selected transformation and efficiency programmes
 - In tandem with the above, progress in managing demand for services against reducing resources
 - Review of progress in developing more strategic commissioning frameworks across the Council following the recent re-organisation
 - Top level governance review of the new combined Children, Young People and Education Directorate
 - Review of the Council's controls to facilitate its priority around economic growth
 - Analysis of a number of income generating projects and systems that are critical to helping the Council achieve its budgetary targets
 - The potential to increase the local taxation base through use of the KIN with our partner local authorities
9. Excluded from Appendix 1 are:
- Internal audit coverage of KCC owned and emerging LATCo's, more particularly Commercial Services , GEN2 and Invicta Law
 - Income generating work with Tonbridge and Malling Borough Council, Kent Fire, Parish Councils and audits of selected grants
 - Other ad-hoc consultancy work

- Detail relating to the audit of local controls within establishments
- On- going advice and 'watching briefs' on selected change programmes.

10. Outcomes will be reported quarterly to each meeting of the Governance and Audit Committee underpinned by a suite of key performance measures enshrined in the plan. This includes statutory 'transparency' reporting in relation to counter fraud activity.

Resources, Priorities and Timing

11. Over the past two years corporate risks have grown considerably. In 2014 there were 14 corporate risks of which 3 were red with a combined risk score of 180. For 2017 there are now 16 corporate risks of which 13 are red with a combined risk score of 276.

12. Over the same period audit resources devoted to KCC have been reduced by 26%, including a 13% reduction going into 2017/18. As such the resource dedicated to KCC must be very carefully focused to provide the maximum impact and assurance.

13. The approved net budget for the unit for 2017/18 is £805,000. Of note, estimated income from external and arm's length bodies now amounts to over £167,000 per annum. Against the net expenditure should be placed fraud and value for money savings which in 2016/17 (to date) totalled £349,000.

14. We also have sufficient remaining DCLG grant to fund the KIN project until the end of 2018/19, after which it must prove itself as a self-sustaining project from the anticipated savings and recoveries.

15. The plan has been divided into 54 Priority 1 and 25 Priority 2 audits. The audit team will have a target to complete 100% of priority 1 and a minimum of 20% of priority 2 audits in the year. The reduced target for Priority 2 audit completion will provide the section with greater flexibility over lower priority audit coverage.

16. We hope to bolster our audit resources with a small cohort of peer auditors drawn from across the Directorates. The peer auditors will benefit from utilising internal audit as a resource for learning through involvement in activities such as governance reviews.

Recommendations

17. Members are asked to agree the proposed Internal Audit and Counter Fraud Annual Plan for 2017-18 as attached to this report.

Appendices

Appendix 1 Internal Audit and Counter Fraud Plan 2017-18

Robert Patterson
Head of Internal Audit
(03000 416554)



Kent County Council

Internal Audit and Counter Fraud Plan

April 2017 - March 2018

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1 Introduction

- 1.1. This report details the planned activities and outcomes of Kent County Council's (KCC) internal audit and counter fraud service for 2017-18. It also acts as an outline business plan.
- 1.2. In particular it covers:
 - The planned internal audit and counter fraud assurance activities for the year ahead and how they have been determined
 - The resources behind the plan
 - The performance targets for the service

2 Purpose and Charter

- 2.1 The Council is required to maintain an adequate and effective system of internal audit under the Accounts and Audit Regulations 2015 and work to Public Sector Internal Audit Standards (PSIAS). In June 2016 the service was independently re-inspected and judged to be fully compliant with these standards.
- 2.2 Our accompanying charter and mission statement is "to support service delivery by providing an independent and objective evaluation of our clients ability to accomplish their business objectives and manage their risks effectively"
- 2.3 This is particularly important during a period of significant change and sustained demands on Council services.

3 Overall Outcomes

3.1 In planning overall internal audit and counter fraud coverage, there is a focus of assurance activities on:

- Work to support the Council's Annual Governance Statement including an overall year end opinion
- The ability to effectively manage critical risks. In particular audit activities have been mapped against top level corporate risks (see section 5)
- Reviews of critical systems within the Council including finance, HR, contract/ commissioning and IT
- Reviews of current operations examining the use of resources, value for money and supporting improvement
- Embedding counter fraud processes and activity across KCC
- Work to prevent fraud and error in the local taxation systems through the county wide Kent intelligence Network (KIN)
- The progress by management of implementing issues and improvements highlighted by internal audit and counter fraud work

3.2 The outcomes from this blend of work not only gives on- going independent evidence on the proper and secure operation of KCC but are also a fundamental foundation for good governance.

4 Constructing the Plan

4.1 In drawing up the plan of activities for 2017/18 we have utilised:

- An established risk assessed audit register
- Substantive associated assurance mapping, whereby complimentary evidence on internal control and risk management can be utilised
- Wide consultation with key stakeholders including the Leader and Cabinet members and associated Corporate Management Team (CMT) Directors
- Review of current corporate risk registers and inherent risks within change programmes and nationally imposed initiatives
- Predetermined cyclical and risk based coverage of key financial and contracting systems
- Existing audit cumulative knowledge of systems, services and areas of control / fraud risk

- Knowledge and trends from counter fraud activity from 2016/17
 - Required follow up work from previous audit and counter fraud work
 - Consultation with external audit
 - Management requests for audit reviews and consultancy work in areas of particular concern
- 4.2 In addition a separate risk based specialist ICT audit plan will be developed from early April with our new outsourced ICT audit provider, BDO LLP.
- 4.3 Separate plans have also been developed for coverage of current or emerging arms length operations owned by KCC such as Commercial Services, GEN2 and Invicta Law

5 Plan Summary

- 5.1 The coverage of the internal audit and counter fraud plan is shown schematically below in Figure 1 and in the more traditional tabular form in Annex 1. Annex 1 details all Priority 1 and 2 work and also includes indicative timing for audits and the outline scope for each review.
- 5.2 Figure 1 maps more significant activities (Priority 1) for 2017/18 against governance processes, key critical financial and non-financial systems as well as assurance towards corporate risks.

Figure 1- Integrated Internal Audit and Counter Fraud Plan 2017/18 – Governance and Core Systems

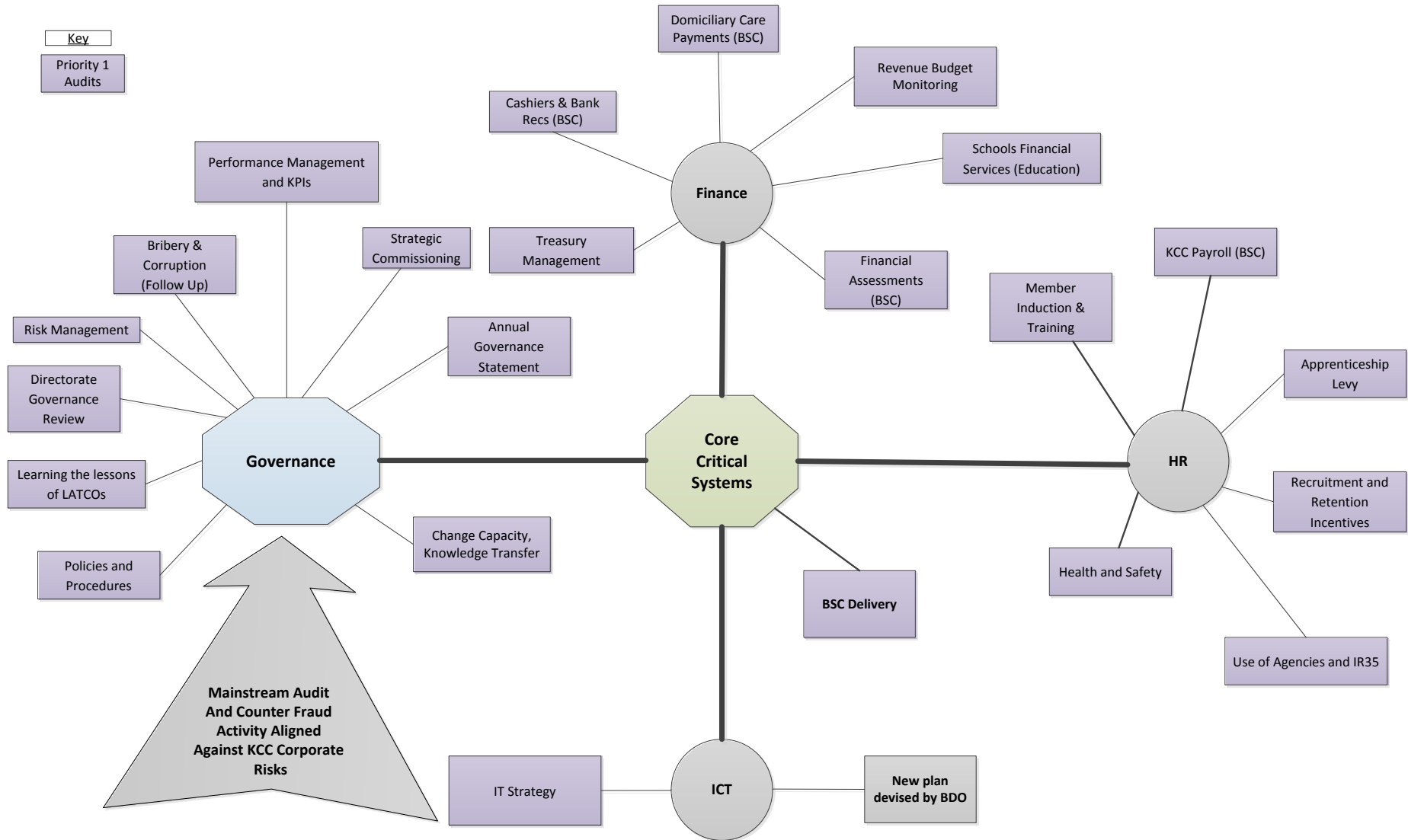
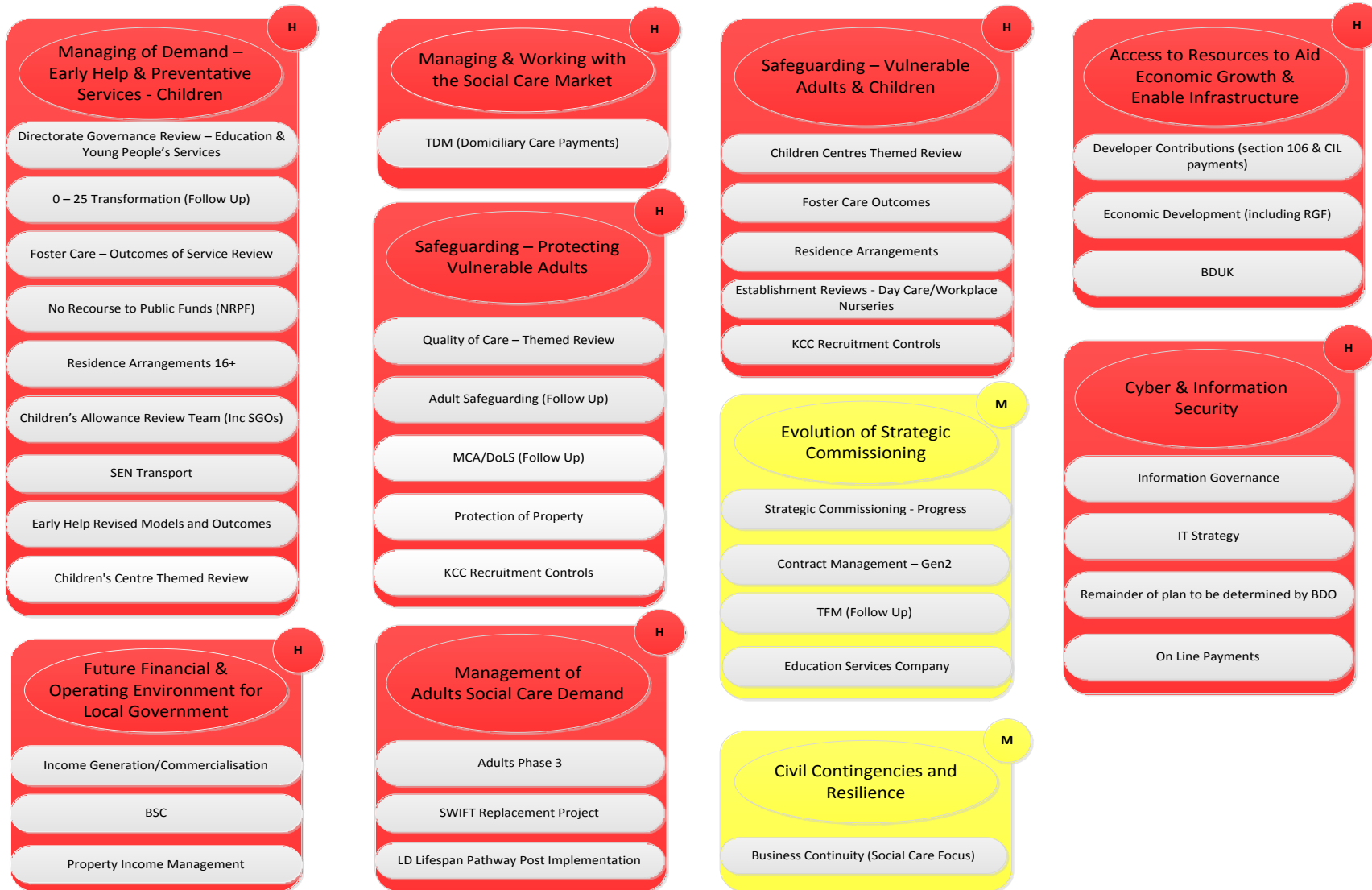


Figure 2 - Internal Audit and Counter Fraud work mapped against current corporate risks



- 5.3 In total the plan has been divided into 54 Priority 1 and 25 Priority 2 audits and with an associated target of completing 100% of Priority 1 and a minimum of 20% for priority 2 audits. This allows the audit team greater flexibility over the coverage of lower priority audits as well as a contingency for unplanned work and special investigations.
- 5.4 The plan has been shared with the Section 151 Officer and CMT. There are no areas or activities that we have been prevented from auditing.
- 5.5 The totality of internal audit and counter fraud work builds into the Head of Audit's annual opinion to the Governance and Audit Committee on the overall adequacy and effectiveness of governance and risk management processes and internal controls. This includes the associated "Governance Health Check" system that was developed last year.
- 5.6 The internal audit opinion is a fundamental element of the Council's Annual Governance Statement.

Following Up on Previous Audits, Issues and Recommendations

- 5.7 A number of audits in the plan are formal follow ups of functions previously given limited assurance, (or worse). Clearly the aim of such audits is to provide assurance that weaknesses and failings have been rectified.
- 5.8 In addition we will undertake desk based follow up work on the implementation of issues agreed with management from all audits during selected periods of the year in tandem with a self-assessment process with Directorates.

6 Resources, Priorities and Timing

- 6.1 The plan contains a resource of 2,165 productive audit and counter fraud days, inclusive of the ICT audit contract dedicated to KCC assurance work. (Total days are 2,873, when including work for other bodies). The approved net budget for 2017/18 is £805,000 including KIN running costs of £80,000 which will be met by the DCLG grant for the next two years. The section's overall budget represents a 16 % saving on the previous year.

- 6.2 The section is resourced on a 'hybrid' basis, being a mix of 18 FTE in-house staff, 2 FTE contractor staff and approximately 125 outsourced days provided by BDO for ICT audit work.
- 6.3 Expressed as an overhead, audit and counter fraud costs represent less than 0.1% of total KCC expenditure (after excluding education) and an average coverage of 2.5 days per £ million spend. This compares favourably with past benchmarking with other local authorities.
- 6.4 For 2017/18 we plan to continue our peer auditor programme, utilising a pool of middle managers from across the County Council who be nominated by Directorates and will volunteer to work with us as part of their management development and gain a broader understanding of the Council and the role of good governance, control and risk.

7 Measuring Internal Audit and Counter Fraud Performance

7.1 We have a series of performance targets that we will be measured against, based on the section being staffed at budgeted levels. These performance targets, detailed below, are a mix of input, output and outcome measures and incorporate national transparency indicators relating to counter fraud. The traditional numerical measures are shown in Annex 2

7.2 Nevertheless in general we will be a section that

- **Is motivated and empowered**

Measure: TBC

- **Is Innovative**

Measure: by examples of innovation

- **Is skilled**

Measure: Qualifications in section, staff actively studying for qualifications

- **Has exceptional quality**

Measures : PSIAS external assessment – 100% compliance to international standards

- **Delivers**

Measures: See Annex 2 - Traditional KPI 's around delivery against the annual plan, (100% of priority 1 and 20% of priority 2 audits, counter fraud recoveries including transparency measures)

- **Adds value through its outcomes**

Measures: VFM savings, consultancy and special support to clients

- **Is growing and diversifying**

Measures: Income generation growth, increasing number of clients

- **Has satisfied customers**

Measures: Client satisfaction returns post audit (90% satisfaction rate) from informal and formal feedback from external clients, eg Parishes

7.3 We will report our performance against these KPI's to each Governance and Audit Committee.

8 In Conclusion

8.1 Through the 2017/18 plan we aim to produce outcomes that provide timely and independent assurance work not only relating to internal controls but also against the key risks facing KCC and its related improvement and transformational plans. We aim to continue to be a high profile risk and business focused internal audit and counter fraud function continuing to add value in our work and assisting in improving operations across the Council.



Kent County Council

Internal Audit

Annual Audit Plan April 2017 – March 2018

1. Core Assurance

To provide assurance on core aspects of internal control authority wide

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA01 2018	Business Continuity	25	1	Q4	To provide assurance that Business Continuity plans are adequate and effective to ensure the Council can continue to deliver priority services in the event of disruption. It is proposed that the audit for 2017/18 will focus on KCC's ability to respond to care provider or partner failure.	<p>Authority Wide</p> <p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Katie Stewart <i>Director of Environment, Planning & Enforcement/</i></p> <p>Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i></p>
CA02 2018	Performance Management, KPI's/Data quality	25	1	Q4	A review of the Council's performance management arrangements to ensure they are fit for purpose. This will include a review of data quality for a sample of key performance indicators to ensure performance reporting is based on accurate information allowing robust decision making.	<p>Authority Wide</p> <p>Vincent Godfrey <i>Strategic Commissioner</i></p> <p>Emma Mitchell <i>Director of Strategic Business Development & Intelligence</i></p>
CA03 2018	Risk Management	25	1	Q4	A review of the Council's risk management arrangements to support the Annual Governance Statement. The scope for 2017/18 is to be confirmed.	<p>Authority Wide</p> <p>David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA04 2018	Annual Governance Statement	15	1	Q1	The focus of the 2017/18 audit will be to review the arrangements for preparation of the 2016/17 Annual Governance Statement	<p>Authority Wide</p> <p>David Cockburn <i>Corporate Director Strategic & Corporate Services</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA05 2018	Information Governance	25	1	Q4	To provide assurance on compliance with information governance standards, including an assessment of the adequacy of completion of the NHS IG Toolkit.	<p>Authority Wide</p> <p>Ben Watts <i>General Counsel</i></p>
CA06 2018	Learning the lessons of LATCO's Advisory	20	1	Q2	A review to provide assurance that after the implementation of the most recent LATCOs, lessons learnt from the transition and implementation stages have been captured and used to inform further LATCO set-ups.	<p>Authority Wide</p> <p>David Cockburn <i>Corporate Director Strategic & Corporate Services</i></p> <p>Ben Watts <i>General Counsel</i></p> <p>Andy Wood <i>Corporate Director of Finance & Procurement</i></p>
CA07 2018	Bribery & Corruption (follow up)	10	1	Q1	Follow-up of the 2016/17 audit to provide assurance that agreed actions have been implemented	<p>Authority Wide</p> <p>Andy Wood <i>Corporate Director of Finance & Procurement</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA08 2018	KCC Corporate Governance	25	1	Q4	A review of the Council's overall Corporate Governance Framework to support the Annual Governance Statement. The audit for 17/18 will include a focus on providing assurance that KCC policies and procedures are adequate, in line with legislation and best practice guidance.	<p>Authority Wide</p> <p>David Cockburn <i>Corporate Director Strategic & Corporate Services</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA09 2018	Directorate Governance Review – Children, Young People and Education	80	1	Q4	<p>To provide assurance that the Governance Framework in place over the newly formed Children, Young People and Education Directorate is adequate and effective.</p> <p>NOTE – given the delay in adoption of the new divisional structure the timing and scope of this review will be held under review and may change.</p>	<p>Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i></p> <p>Patrick Leeson <i>Corporate Director of Education and Young People's Services</i></p>
CA10 2018	Strategic Commissioning – new arrangements Advisory	30	1	Q4	A review of the progression of strategic commissioning arrangements.	<p>David Cockburn <i>Corporate Director Strategic & Corporate Services</i></p> <p>Vincent Godfrey <i>Strategic Commissioner</i></p>
CA11 2018	Transformation & Change – 0-25 follow up	10	1	Q2	Follow-up of the 2016/17 audit to provide assurance that agreed actions have been implemented.	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i>
CA12 2018	Transformation and Change – Adults phase 3 Advisory	30	1	Ongoing	To provide assurance that transformation and change programmes are delivering sustainable savings and realising planned benefits/outcomes. This audit will take the form of a watching brief/consultancy to feed into the process from design into implementation and provide advice/challenge. Post implementation review of Phase 3.	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA13 2018	Transformation & Change – Business Service Centre Advisory	30	1	Q3	To provide assurance that transformation and change programmes are delivering sustainable savings and realising planned benefits/outcomes. The review will focus on BSC business plans and outcomes.	Rebecca Spore <i>Director of Infrastructure</i>
CA14 2018	Transformation & Change – Checkpoint Reviews Advisory	20	1	Ongoing	A series of short, focussed reviews at key points in programme/ project lifecycle – these will include checkpoint reviews of programmes within the portfolios potentially led by the Corporate Assurance team as and when required.	Authority Wide David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>
CA15 2018	Transformation & Change – Change capacity and knowledge transfer	20	1	Q2	To provide assurance that skills are being developed and transferred to develop in-house capacity and knowledge in relation to transformation and change thereby reducing reliance on contractors.	Authority Wide Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i>
CA16 2018	Declarations of Interest	10	2	TBC	An annual data matching exercise comparing Companies House data with KCC payroll, accounts payable and declarations of interest made via Employee Self Service to provide assurance that potential conflicts of interest have been declared and are being appropriately managed.	Authority Wide Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i>
CA17 2018	Income generation/ Commercialisation v business as usual	20	2	TBC	To provide assurance that income targets deriving from financial pressures do not result in failure to meet core or statutory responsibilities.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>
CA18 2018	Data Protection (including General Data Protection Regulations) GDPR element - Advisory	20	2	TBC	Core assurance on readiness for compliance with new legislation, the General Data Protection Regulations. Following the ICO's audit in 2016/17 which focussed on Social Care, this audit will also undertake a 'deep dive' approach to data protection arrangements in other service areas.	Authority Wide Ben Watts <i>General Counsel</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA19 2018	Service User feedback & engagement (KCC-wide)	20	2	TBC	To provide assurance that the Council engages appropriately with service users and their feedback is considered to drive future service developments and improvements.	Authority Wide Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i>
	Total days	470				

2. Core Financial Assurance

To provide assurance on core aspects of financial internal control

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer
CS01 2018	Revenue Budget Monitoring	30	1	Q1	Cyclical review of key financial system. In particular this review will focus on the robustness of monitoring processes to provide assurance that budgets are adequately managed to achieve required savings.	Andy Wood <i>Corporate Director of Finance & Procurement</i>
CS02 2018	Schools Financial Services	15	1	Q4	Cyclical review of key financial system. This audit will provide assurance that the system of schools audit is adequate.	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Andy Wood <i>Corporate Director of Finance & Procurement</i>
CS03 2018	Treasury Management	20	1	Q2	Cyclical review of key financial system. To provide assurance that treasury management of KCC funds is robustly controlled.	Andy Wood <i>Corporate Director of Finance & Procurement</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer
CS04 2018	Financial Assessments	20	1	Q2	Cyclical review of key financial system. This review will focus on the adequacy of controls in place ensure the accurate assessment of client's contributions towards the cost of their care.	Andy Wood <i>Corporate Director of Finance & Procurement</i> Rebecca Spore <i>Director of Infrastructure</i>
CS05 2018	Cashiers & Bank Recs	20	1	Q1	Cyclical review of key financial system. To provide assurance that adequate and effective controls are operating over the management and administration of cash and banking - including the receiving, banking, allocation and reconciliation of income.	Andy Wood <i>Corporate Director of Finance & Procurement</i> Rebecca Spore <i>Director of Infrastructure</i>
CS06 2018	T.D.M. System (for domiciliary care payments)	15	1	Q2	Cyclical review of key financial system. To provide assurance that the TDM process continues to ensure timely and accurate payments to providers and that the expenditure is appropriate, authorised and accounted for.	Andy Wood <i>Corporate Director of Finance & Procurement</i> Rebecca Spore <i>Director of Infrastructure</i>
CS07 2018	Accounts Receivable Follow-Up	10	2	TBC	Follow-up of the 2016/17 audit to provide assurance that agreed actions have been implemented.	Andy Wood <i>Corporate Director of Finance & Procurement</i> Rebecca Spore <i>Director of Infrastructure</i>
CS08 2018	Client Financial Affairs (KCC as Appointee)	20	2	TBC	Cyclical review of key financial system. To provide assurance on controls over management of finances for clients who are incapable of managing themselves.	Andy Wood <i>Corporate Director of Finance & Procurement</i> Rebecca Spore <i>Director of Infrastructure</i>
	Total Days	150				

3. Risk / Priority Based

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

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
3.1 Strategic and Corporate Services						
RB01 2018	Members Induction and Training	15	1	Q1	To provide assurance that Members receive an appropriate level of training and new Members are inducted into the Council to ensure they have the right skills and knowledge to discharge their functions	<p>Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i></p> <p>Ben Watts <i>General Counsel</i></p>
RB02 2018	Apprenticeship Levy	20	1	Q3	To provide assurance that KCC are prepared to meet the new requirements with relevant risks identified and managed appropriately. This audit will cut across the ST and EY directorates.	<p>Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i></p> <p>Patrick Leeson <i>Corporate Director of Education and Young People's Services</i></p> <p>Graham Willett <i>Interim Director of Education, Quality and Standards</i></p>
RB03 2018	Use of Agencies and IR35	20	1	Q3	To provide assurance that there are adequate and effective systems in place to identify instances where workers supplying services via an intermediary should be treated as employees to avoid breach of IR35 tax legislation.	<p>Andy Wood <i>Corporate Director of Finance & Procurement</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB04 2018	KCC Payroll	25	1	Q2	Cyclical audit of key financial system. To provide assurance that there are effective controls in place to ensure the integrity of the Council's payroll system and the accuracy of payments to staff.	<p>Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p>
RB05 2018	Developer Contributions (section 106 & CIL payments)	25	1	Q4	<p>A review of developer contributions (Section 106) and Community Infrastructure Levy (CIL) payments to ensure that the controls in place are transparent, effective and comply with the Council's policies and procedures.</p> <p>This audit will follow-up on implementation of actions to address issues raised as a result of the 2015/16 audit and is dependent on progress being made on implementing a new/centralised system.</p>	<p>Rebecca Spore <i>Director of Infrastructure</i></p>
RB06 2018	TFM Follow-up	10	1	Q3	<p>Following the 2016/17 audits undertaken on management of the three regional TFM contracts and the Property Service Desk operation, this audit seeks to provide assurance that actions agreed to address issues raised have been implemented effectively.</p> <p>It is proposed for 2017/18 the audit will be undertaken jointly across KCC and GEN2 with a shared report in order that assurance provided covers the full scope of the arrangement</p>	<p>Rebecca Spore <i>Director of Infrastructure</i></p>
RB07 2018	Health & Safety	20	1	Q3	To provide assurance that processes in place are sufficient to ensure that KCC met its statutory obligations and that staff, services, users, contractors and members of the public are protected from harm.	<p>Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i></p> <p>Flavio Walker <i>Head of Health and Safety</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB08 2018	Grants Administration Follow-up (carried forward from 2016/17)	10	1	Q1	Following a review of local administered grant schemes across the authority in 2015/16 to provide assurance that grants are validated, legitimate and spent appropriately this audit seeks to provide assurance that actions agreed to address issues raised have been implemented effectively.	Andy Wood <i>Corporate Director of Finance & Procurement</i> David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>
RB09 2018	Property Income Management	20	2	TBC	To provide assurance that income from the Council's property portfolio is maximised, to include timely rent review processes.	Rebecca Spore <i>Director of Infrastructure</i>
RB10 2018	KNet and Website – including online payments	25	2	TBC	To provide assurance that the content of both KNet and Kent.gov.uk are managed to ensure information is accessible, appropriate and up to date. In addition, that the arrangements for taking on-line payments for service users are robust and reliable.	Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i> Christina Starte <i>Head of Kent Communications</i>
RB11 2018	KCC Recruitment/ entry controls	25	2	TBC	Cyclical audit of key system. To provide assurance that there are appropriate controls over the recruitment of new staff to KCC.	Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i> Rebecca Spore <i>Director of Infrastructure</i>
RB12 2018	Recruitment and retention incentives (Social Care)	15	2	TBC	To provide assurance that recruitment and retention incentives for social care roles are appropriately deployed, are made in line with the policy and that these are recovered where possible should the member of staff leave KCC.	Amanda Beer <i>Corporate Director of Engagement, Organisation Design & Development</i> Andrew Ireland <i>Corporate Director of Social Care, Health and Well-being</i>
RB13 2018	Contract management of GEN2 (including capital projects and data control)	15	2	TBC	To provide assurance on the arrangements for the GEN2 LATCO, including Client/ Provider relationship management and monitoring achievement of planned outcomes.	Rebecca Spore <i>Director of Infrastructure</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
3.2 Social Care, Health and Well-being						
RB14 2018	Quality of Care themed review	30	1	Q1	To provide assurance there is an adequate and consistent quality assurance framework in place particularly given increased demand and financial pressure, work with partners and multiple suppliers and the move towards a focus on short term support and independence	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern and Anne Tidmarsh <i>Directors of DCLDMH and OPPD</i>
RB15 2018	LD Lifespan Pathway Post Implementation	25	1	Q3	Following the 2016/17 consultancy work to support the redesign of the transition pathway this audit will provide assurance post-implementation that objectives have been achieved and key risks have been identified and are managed appropriately.	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern <i>Director of DCLDMH</i>
RB16 2018	Adult Safeguarding Follow-up	10	1	Q2	A follow-up of the 15/16 audit to provide assurance that agreed actions have been implemented	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern and Anne Tidmarsh <i>Directors of DCLDMH and OPPD</i>
RB17 2018	MCA/DoLS Follow-up	10	1	Q2	A follow-up of the 15/16 audit to provide assurance that agreed actions have been implemented	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern and Anne Tidmarsh <i>Directors of DCLDMH and OPPD</i>
RB18 2018	Protection of property	20	1	Q2	To provide assurance that there are adequate and effective processes in place to ensure that client property that comes into the care of KCC is safeguarded and treated appropriately following correct procedures and in compliance with relevant legislation	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern and Anne Tidmarsh <i>Directors of DCLDMH and OPPD</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB19 2018	Swift replacement project – consultancy Advisory	15	1	Ongoing	This work will also be undertaken on a consultancy basis to provide ad hoc advice and independent challenge through implementation of the replacement for the Swift system in adult social care to ensure adequate and effective controls are maintained	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern and Anne Tidmarsh <i>Directors of DCLDMH and OPPD</i>
RB20 2018	Disabled children - direct payments and managed service	25	1	Q1	To provide assurance that adequate processes exist with regard to personal budgets, whether direct payments or managed service, including assessment, reviews and payment processes	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern <i>Director of DCLDMH</i>
RB21 2018	Foster Care - dependent on outcomes of service review could inc recruitment of foster carers	20	1	Q3	Following the 2014/15 audit of Foster Care and the subsequent follow-up in 2015/16 this audit will provide assurance on implementation of the residual actions required to close off implementation of all agreed actions.	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>
RB22 2016	No Recourse to Public Funds	10	1	Q1	To provide assurance that KCC has appropriate processes in place to identify families without recourse to public funds and that appropriate checks are undertaken to ensure claims are bone fide and that any changes in circumstance are identified	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>
RB23 2018	Residence Arrangements 16+ (SAIFE) including placements and payments	25	1	Q2	To provide assurance that proper procurement processes have been followed, placements are both appropriate to meet identified needs and cost effective, and that payments made through Controcc are complete and accurate	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB24 2018	Childrens' Allowance Review Team inc SGOs	25	1	Q3	To provide assurance that adequate processes are in place to manage key risks including payment of allowances and reviews	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>
CA01 2018	<i>Business Continuity</i> <i>(duplicate entry for information purpose)</i>	<i>N/A</i>	1	Q4	<i>To provide assurance that Business Continuity plans are adequate and effective to ensure the Council can continue to deliver priority services in the event of disruption. It is proposed that the audit for 2017/18 will focus on KCC's ability to respond to care provider or partner failure.</i>	Authority Wide <i>Barbara Cooper</i> <i>Corporate Director Growth, Environment & Transport</i> <i>Katie Stewart</i> <i>Director of Environment, Planning & Enforcement</i> <i>Andrew Ireland</i> <i>Corporate Director of Social Care Health and Well-being</i>
RB25 2018	Young carers - contract management	15	2	TBC	To provide assurance that the contract is being managed adequately and effectively ensuring key risks are managed and quality of service obtained	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>
RB26 2018	Adults and Children's Finance Processes Advisory	10	2	TBC	Consultancy work to provide advice in relation to the separation of current joint finance processes	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB27 2018	Domiciliary Care	20	2	TBC	Given the current issues facing the care market in recruiting, this review would provide assurance that KCC have taken appropriate action to engage with the market and develop strategies to meet resource gaps and ensure care needs are met	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Anne Tidmarsh <i>Director of OPPD</i>
RB28 2018	Redesign of 26+ Service – consultancy Advisory	15	2	TBC	Following positive feedback on the consultancy work undertaken through design of the integrated DC/LD pathway this work will also be undertaken on a consultancy basis to provide ad hoc advice and independent challenge through redesign of the 26+ service	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern <i>Director of DCLDMH</i>
RB29 2018	DCALDMH Service Provision redesign Advisory	20	2	TBC	Following positive feedback on the consultancy work undertaken through design of the integrated DC/LD pathway this work will also be undertaken on a consultancy basis to provide ad hoc advice and independent challenge through redesign of the DVALDMH Service Provision	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern <i>Director of DCLDMH</i>
RB30 2018	Direct payments analytical review Advisory	15	2	TBC	A review of historic Direct Payment misuse reports to establish whether there are any themes or recurrent control weaknesses that may provide opportunities to reduce misuse in the future	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Penny Southern <i>Director of DCLDMH</i>
RB31 2018	Residence Arrangements - IFA,& Residential – including placements and payments	35	2	TBC	As above, this review will take place once the new framework contracts for IFAs is implemented therefore is likely to be undertaken early in 2018/19	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Philip Segurola <i>Director of Specialist Children's Services</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB40 2018	Front door - CRU & Triage integrated model (Duplicate entry for information purposes)	N/A	2	TBC	May be included in the EHU audit (see RB36 2018)	<p>Andrew Ireland Corporate Director of Social Care Health and Well-being</p> <p>Patrick Leeson Corporate Director of Education and Young People's Services</p> <p>Stuart Collins Director of Early Help and Preventative Services</p>
3.3 Children and Young People's Services						
CS02 2018	Schools Financial Services	N/A	1	Q4	Cyclical review of key financial system. This audit will provide assurance that the system of schools audit is adequate.	<p>Patrick Leeson Corporate Director of Education and Young People's Services</p> <p>Andy Wood Corporate Director of Finance & Procurement</p>
RB32 2018	Troubled Families Returns	40	1	Ongoing	Statutory requirement for Internal Audit to review a representative sample of families and achievement of outcomes prior to submission to DCLG for payment. The time budget allows for the provision of advice in relation to evidence required to support outcomes	<p>Patrick Leeson Corporate Director of Education and Young People's Services</p> <p>Stuart Collins Director of Early Help and Preventative Services</p>
RB33 2018	Education Services Company Advisory	15	1	Ongoing	To be discussed with relevant Corporate Director	<p>Patrick Leeson Corporate Director of Education and Young People's Services</p> <p>Graham Willett Interim Director of Education, Quality and Standards</p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB34 2018	School Themed Review - additional funding and SEN HNF	60	1	Q3	Annual audit of a key through review of a sample of KCC schools. The theme for 2017/18 will focus on additional funding, including SEN Higher Needs Funding to provide assurance that funds are used appropriately and effectively to achieve	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Keith Abbott <i>Director of Education Planning and Access</i>
RB35 2018	SEN Transport	25	1	Q3	A review to provide assurance that key risks are identified and managed, including those in relation to budget pressures, safeguarding issues and potential for journeys charged not undertaken. The scope will include decision making on transport need and personal budgets.	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Keith Abbott <i>Director of Education Planning and Access</i> Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> Roger Wilkin <i>Director of Highways, Transport and Waste</i>
RB36 2018	EY systems Post-implementation	20	1	Q3/4	A post-implementation review of key systems in the Children, Young People and Education directorate to provide assurance that benefits have been realised and appropriate controls have been implemented/maintained.	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Stuart Collins <i>Director of Early Help and Preventative Services</i>
RB37 2018	EHU revised model and outcomes	30	1	Q3	To provide assurance that the key risks in relation to the new service delivery model are adequately managed. In particular the review will consider benefits realised, achievement of outcomes, or progress on the same, achievement of any required savings and effectiveness of integration/mainstreaming of functions, including troubled families	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Stuart Collins <i>Director of Early Help and Preventative Services</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB38 2018	Childrens Centres themed review follow-up	25	1	Q2	A follow-up of the 16/17 audit to provide assurance that agreed actions have been implemented The scope will also include a review of utilisation, cost effectiveness and achievement of outcomes	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Stuart Collins <i>Director of Early Help and Preventative Services</i>
RB02 2018	<i>Apprenticeship Levy (Duplicate entry for information purposes)</i>	N/A	1	Q3	<i>To provide assurance that KCC are prepared to meet the new requirements with relevant risks identified and managed appropriately. This audit will cut across the ST and EY directorates.</i>	<i>Amanda Beer Corporate Director of Engagement, Organisation Design & Development Patrick Leeson Corporate Director of Education and Young People's Services Graham Willett Interim Director of Education, Quality and Standards</i>
RB39 2018	Youth Justice	20	2	TBC	<i>May be included in the EHU audit above (RB36 2018)</i>	Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Stuart Collins <i>Director of Early Help and Preventative Services</i>
RB40 2018	Front door - CRU & Triage integrated model	20	2	TBC	<i>May be included in the EHU audit above (RB36 2018)</i>	Andrew Ireland <i>Corporate Director of Social Care Health and Well-being</i> Patrick Leeson <i>Corporate Director of Education and Young People's Services</i> Stuart Collins <i>Director of Early Help and Preventative Services</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
3.4 Growth, Environment and Transport						
RB41 2018	Economic Development inc Regional Growth Fund	30	1	Q3	Assurance on the governance and controls in Economic Development, including the loans, grants and investments related to Regional Growth Funding, with particular focus on the re-cycling of repayments.	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> David Smith <i>Director of Economic Development</i>
RB42 2018	BDUK –watching brief. Advisory	10	1	Ongoing	On-going watching brief for the BDUK programme, including providing assurance over the adequacy of controls over contractual payments to the supplier.	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> Andy Wood <i>Corporate Director of Finance</i>
RB43 2018	Carbon Reduction Commitment – annual review	10	1	Q2	Annual review to assess compliance with statutory requirements	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> Katie Stewart <i>Director of Environment Planning and Enforcement</i>
RB35 2018	<i>SEN Transport</i> <i>(Duplicate entry for information purposes)</i>	<i>N/A</i>	1	Q3	<i>A review to provide assurance that key risks are identified and managed, including those in relation to budget pressures, safeguarding issues and potential for journeys charged not undertaken. The scope will include decision making on transport need and personal budgets.</i>	<i>Patrick Leeson</i> <i>Corporate Director of Education and Young People's Services</i> <i>Keith Abbott</i> <i>Director of Education Planning and Access</i> <i>Barbara Cooper</i> <i>Corporate Director Growth, Environment & Transport</i> <i>Roger Wilkin</i> <i>Director of Highways, Transport and Waste</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB44 2018	Kent Resilience Team Follow-Up	10	2	TBC	A follow-up of the 2016/17 audit to provide assurance that agreed actions have been implemented	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Katie Stewart <i>Director of Environment Planning and Enforcement</i></p> <p>Joint audit with Kent Fire</p>
RB45 2018	Street work income	15	2	TBC	To provide assurance that adequate processes exist to ensure income is maximised, and monies received are complete and accurate	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Roger Wilkin <i>Director of Highways, Transport and Waste</i></p>
RB46 2018	Contract management in Libraries, Registration and Archives	20	2	TBC	To provide assurance that contracts are managed appropriately, so that the deliverables required are received and payments are made in line with contractual terms.	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>James Pearson <i>Interim Head of LRA</i></p>
RB47 2018	Local Growth Fund –phase 3 including Major Highways Project Management	25	2	TBC	To provide assurance that adequate processes exist in relation to Phase 3, including governance and controls, and that ensure required outcomes are achieved, costs are effectively managed and timescales met	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>David Smith <i>Director of Economic Development</i></p>
	Total Days all Risk Based	975				

4. ICT Audit

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

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Corporate Director & Lead Officer
ICT01 2018	To be populated following risk assessment with new ICT Audit provider					
ICT02 2018						
ICT03 2018						
ICT04 2018						
ICT05 2018						
ICT06 2018						
ICT07 2018						
ICT08 2018						
	Total Days	150				

5. Work to Prevent and Pursue Fraud and Corruption

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

Ref.	Audit	Days	Priority	Indicative Qtr	Outline Scope	Audit Details
						Corporate Director & Lead officer
Anti-fraud work – to raise awareness						
CF01 2018	Fraud awareness	20	1	Ongoing	A programme of fraud awareness training based on an authority wide training needs analysis targeting groups in high risk areas first e.g., schools, procurement and social care. To raise the level of fraud awareness and create a zero tolerance culture towards fraud and corruption.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>
Fraud prevention work – to remove weaknesses that could be exploited						
CF02 2018	Kent Intelligence Network	200	1	Ongoing	Using data from across Kent partners to identify and assess areas of potential fraud risk in order to make recommendations to remove weaknesses that could be exploited in order to commit fraud.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>
CF03 2018	National Fraud Initiative (NFI)	30	1	Ongoing	Investigation of NFI alerts and matches to assess areas of potential fraud risk and where appropriate make recommendations to remove weaknesses that could be exploited in order to commit fraud.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>
CF04 2018	Serious Organised Crime	15	2	TBC	Based on the Home Office's Organised Crime Procurement Pilots this is an authority wide audit of the area's most vulnerable / attractive to serious and organised criminals to identify where the council is most at risk and to assess where changes and improvements can be implemented to reduce opportunities for serious and organised crime involvement and financial losses.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>

Ref.	Audit	Days	Priority	Indicative Qtr	Outline Scope	Audit Details
						Corporate Director & Lead officer
Detection work – to detect fraud in high risk areas or systems that may be vulnerable						
Counter Fraud audits have been included in the audit plan as follows:		n/a			To detect fraud in high risk areas or systems that may be vulnerable and to make recommendations to secure arrangements.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>
CA16 2018	Declarations of Interest		2	TBC		
CA07 2018	Bribery and Corruption F/up		1	Q1		
RB08 2018	Grants Administration F/up		1	Q1		
RB22 2018	No recourse to public funds		1	Q1		
RB30 2018	Direct Payments Analytical Review		2	TBC		
Investigation, sanction and redress						
CF05 2018	Authority wide Investigations	300		Ongoing	Investigate suspected fraud in a timely, professional, and cost effective manner ensuring that all appropriate sanctions are applied and any losses are recovered. This work will include a review of transactions shown as matches by National Fraud Initiative and investigate and report as appropriate.	Authority Wide Andy Wood <i>Corporate Director of Finance & Procurement</i>
	Total Days	565				

6. Summary

Audit	Priority 1 Days	Priority 2 Days
Core Assurance	390	70
Core Financial Assurance	120	30
Risk/Priority Based	635	340
IT audit plan	150	0
Proactive and Reactive Counter fraud work	565	0
Follow up of audits with no/limited assurance and recommendations with high/medium priority rating	50	0
Liaison, advice and information and support for system/service development	50	0
Commercial Activities and other external provision	100	0
Establishments	105	0
Commercial Services	200	0
Gen2 Property LATCO	50	0
Legal Services LATCO	50	0
Education Services Company	25	0
Parishes	30	0
KMFRA	95	0
Tonbridge and Malling District Council – Management of audit and fraud	120	0
Grant claims other Certifications	50	0
Total Days	2785	440

N.b. The table above shows priority 2 audits, due to resource pressures we will aim to deliver approximately 20% of these audits

Annex 2 – Numerical Key Performance Measures for Internal Audit & Counter Fraud 2017/18

INPUTS	Fraud	Audit
Total number of employees undertaking investigations	Annual declaration	Annual declaration
Total number of professionally accredited	Annual declaration	Annual declaration
Amount spent on investigation and prosecution of fraud	Annual declaration of actual and budget	Annual declaration of actual and budget
OUTPUTS		
90% of priority 1 audits completed 20% of priority 2 audits completed		Cumulative Monthly FDiv MT and progress reporting to G&AC
60% of audit draft reports to be issued within date on the Engagement Plan		Monthly – IA management team, FDivMT and cumulative G&AC
Time from start of fieldwork (SoF) to draft report to be no more than 40 days		Monthly – IA management team
Draft report to final within 30 days		Monthly- IA management team
Advice to working parties , groups etc	Cumulative declaration through G&AC reporting	Cumulative declaration through G&AC reporting
No of fraud cases investigated	Cumulative declaration through G&AC reporting	
No of irregularity cases investigated	Cumulative declaration through G&AC reporting	
OUTCOMES		
% of high priority/risk issues a) Agreed b) Implemented by client		Monthly – FDiv MT and Cumulative declaration through G&AC reporting
% of all other issues a) Agreed b) Implemented by client		Monthly FDiv MT and Cumulative declaration through G&AC reporting
Client satisfaction to be 90% or more	Monthly - FPET and cumulative declaration through G&AC reporting	Monthly - FDiv MT and cumulative declaration through G&AC reporting
Value for money / efficiency savings identified	Cumulative declaration through G&AC reporting	Cumulative declaration through G&AC reporting
Total No of occasions on which (a) fraud and (b) irregularity was identified	Cumulative declaration through G&AC reporting	
Total monetary value of (a) and (b) detected	Cumulative declaration through G&AC reporting	
Total monetary value of (a) and (b) recovered	Cumulative declaration through G&AC reporting	

By: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 11th April 2017
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 including follow up work on previously agreed actions from audits.

FOR ASSURANCE AND DECISION

Introduction

1. This report summarises:

- The key findings from completed Internal Audit reviews (since January)
- The key outcomes from completed counter fraud investigations
- Progress against the 2016/17 Internal Audit Plan and
- Achievement against the Internal Audit and Counter Fraud Key Performance Indicators

Overview of Progress

2. Appendix 1 outlines the outcomes of Internal Audit and Counter Fraud work completed for the financial year to date. In total 60 audit reviews have been completed, including 48 substantive reviews. In addition we have undertaken 4 special investigations / consultancy work outside pre planned audit activity. A further 3 substantive audits are at draft reporting stage and significant fieldwork is in progress for a further 16 audits. In relation to counter fraud work there have been 172 irregularities reported and investigated since the start of 2016/17 of which 111 have been concluded. Overall the unit has reviewed systems or activities with a combined spend of an estimated £846 million since in 2016/17 to date.
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 2016) 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
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 also shown in Appendix 2.

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. At this stage of the year, the outcomes from audits are generally positive. In particular:
 - 37% of systems and functions have been judged with 'substantial assurance' or better
 - Positive assurance over governance within GET which accounts for £164m of annual revenue spend
 - A continuing pattern of general robustness of key financial systems, including positive judgements on accounts payable and education capital planning in this quarter
 - An effective NEET strategy coupled to positive outcomes from previous quarters relating to asylum seeking children systems and effective early help services within specialist children's services
 - Improvement to supervision systems in Social Care relating to vulnerable adults
8. Areas for development and improvement relate to:
 - The 7 (15%) of systems / functions that have received a 'limited' assurance level.
 - Continuing issues with contract management, with specific reference to the total facilities management contract and associated help desk
 - Weaker local controls in devolved financial and non-financial systems within libraries
9. A number of counter fraud special investigations are in progress but to date 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.

Follow Ups

11. We have undertaken a number of dedicated audits of services or functions this quarter that relate to tracking progress in areas previously considered as having weaker performance. The summary results are:

Area	Previous judgement	Follow up judgement
Adult Supervisions (Social Care)	Limited	Adequate
Debt Recovery	Adequate	Adequate
TFM Contract Management	Limited	Limited
Procurement and Contract Management	Limited	Adequate
Kent Resilience Team	Adequate	Adequate

12. As a positive there has been no deterioration in outcomes but equally there has been limited progress in a number of key areas.

Recommendations

13. 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 overall assurances provided in relation to the Council's control and risk environment as a result of the outcome of Internal Audit and Counter Fraud work completed to date

Appendices

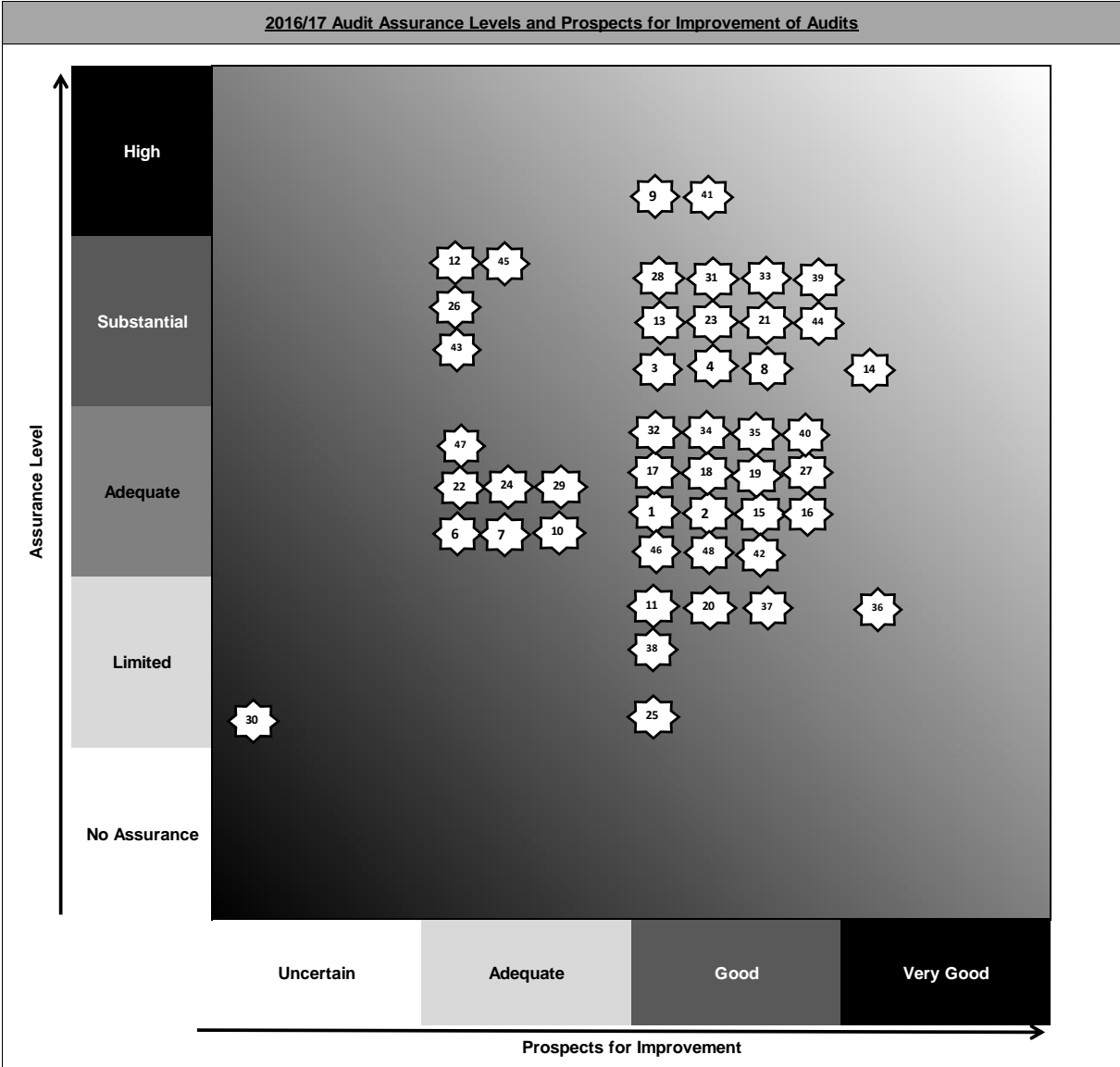
Appendix 1 - Distribution of internal audit judgements 2016/17 (to date)

Appendix 2 - Internal Audit Progress Report April 2017

Robert Patterson
Head of Internal Audit

(03000 416554)

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



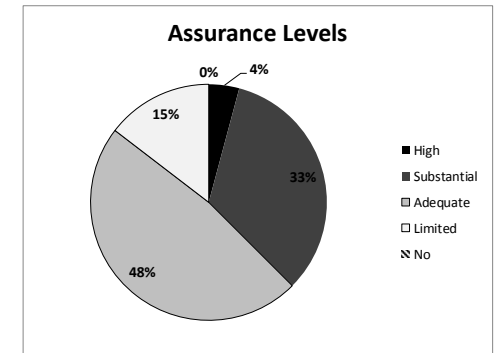
<u>Audit Opinion October G&A Committee</u>				<u>Audit Opinion January G&A Committee</u>			
No	Audit	Judgement	Prospects for Improvement	No	Audit	Judgement	Prospects for Improvement
1	Autism	Adequate	Good	13	General Ledger	Substantial	Good
2	UASC	Adequate	Good	14	Value Added Tax (VAT)	Substantial	Very Good
3	Early Help - Step Up Process	Substantial	Good	15	Insurance Fraud	Adequate	Good
4	TCP Process	Substantial	Good	16	ICT Software Licence Management	Adequate	Good
5	ICT Disaster/ Recovery	Adequate	N/A	17	Swift/ AIS Application and Preparedness for ISO 27001 Certification Review	Adequate	Good
6	ICT Swift	Adequate	Adequate	18	Spydus Application	Adequate	Good
7	PROW	Adequate	Adequate	19	Contact Point - Contract Management Agilisys	Adequate	Good
8	Schools and 3rd Party Payroll	Substantial	Good	20	Road Safety & Crash Remedial Measures	Limited	Good
9	FOI Requests	High	Good	21	ICES and Telecare	Substantial	Good
10	Data Protection	Adequate	Adequate	22	Safeguarding - Education and Young Peoples Services	Adequate	Adequate
11	Bribery and Corruption Act	Limited	Good	23	Workforce Planning	Substantial	Good
12	Annual Governance Statement Returns	Substantial	Adequate	24	Establishment Themed Review - Children Centres	Adequate	Adequate
				25	Transformation 0-25	Limited	Good
				26	MTFP	Substantial	Adequate
				27	Business Planning	Adequate	Good
				28	Schools Personnel Service	Substantial	Good
				29	Carers Assessments	Adequate	Adequate
				30	TFM - Help Desk (Follow-up)	Limited	Uncertain
				31	Schools Improvement Team	Substantial	Good
				32	Leaving Care (Follow-up)	Adequate	Good

Audit Opinion April G&A Committee

No	Audit	Judgement	Prospects for Improvement
33	IT Hardware Asset Management	Substantial	Good
34	Supervisions (Follow Up)	Adequate	Good
35	Debt Recovery (Follow Up)	Adequate	Good
36	Libraries Themed Review (Including the 5 site audits)	Limited	Very Good
37	TFM Contract Management	Limited	Good
38	Re stating of TFM Helpdesk following Kier work	Limited	Good
39	CLS (FDR)	Substantial	Good
40	Procurement and Contract Management Follow Up	Adequate	Good
41	Education Capital Plan	High	Good
42	KRT Phase 3	Adequate	Good
43	NEET Strategy	Substantial	Adequate
44	Accounts Payable	Substantial	Good
45	GET Governance	Substantial	Adequate
46	Information Governance	Adequate	Good
47	Property Asset Disposals	Adequate	Adequate
48	NDORS/Speed Awareness	Adequate	Good

Assurance Level	No	%
High	2	4%
Substantial	16	33%
Adequate	23	48%
Limited	7	15%
No	0	0%

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Special Investigations/ Consultancy
Enablement Expenses
Camera Safety Partnership
Carbon Reduction Commitment
Troubled Families Grant



Kent County Council

Internal Audit and Counter Fraud Progress Report

April 2017

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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 January 2017. It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.
- 1.2. To date we have completed 60 internal audits (including 12 establishment visits) and 172 counter fraud investigations, the majority of which are resourced and driven from the internal audit plan (previously reviewed by this Committee) and are focused on providing an independent and objective opinion on the adequacy of the Council's control environment. Overall we have examined an estimated £846 million of KCC turnover to date.
- 1.3. A further 19 audits are currently in progress and 61 counter fraud investigations remain ongoing.
- 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 assurance against key corporate risks or significant systems.
- 1.5. During this period we have also undertaken a number of special investigations and 'consultancy' styled assignments, using our expertise to review areas of concern or 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. Annex 1 provides detailed summaries and Annex 3 a definition of associated assurance levels.
- 2.2. To reprise our covering report , the following summary strengths and areas for development emerge from the work to date:
- 2.3. Strengths include:
 - 37% of systems or functions have been judged with a substantive assurance or better
 - Positive assurance from the GET governance review
 - A continuing pattern of general robustness of key financial systems
 - No material incidences of fraud or corruption have been detected

2.4. Areas for further improvement relate to :

- The 7 (15%) systems / functions that have received a limited assurance level,
- Continuing issues with areas of contract management
- Weaker local controls through our themed review of libraries

2.5. 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

2.6. From current work and the findings from follow ups of audit issues, it is evident that in general management have developed appropriate action plans in response to all the high priority issues raised from our audit and counter fraud work.

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

3.1. Annex 1 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, delivering planned savings and service improvements:

	Assurance Level	Prospects for Improvement	Issues Raised	
Procurement and Contract Management (follow up)	Adequate	Good	High: 1 Medium:1	Accepted
Transformation 0-25	Limited	Good	High: 3	Accepted
Schools Improvement Team	Substantial	Good	Medium: 3	Accepted
Adoption	N/A	N/A	N/A	Consultancy review

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3.3. In 2015/16 a series of themed reviews of contract management highlighted significant weaknesses. Our follow up has found that progress is being made in implementing agreed and corrective actions. Unfortunately testing showed that despite these actions the contract register was still incomplete, contract management principles were being inconsistently applied (particularly over performance management) and schemes of delegation for contract approvals are not always followed.

Identification, planning and delivery of financial savings

3.4. During this period we have not completed any new work in relation to this risk, but as a reminder previous judgements were:

	Assurance level	Prospects for Improvement	Issues Raised	
Medium Term Financial Planning (MTFP)	Substantial	Adequate	Medium: 2	Accepted
Business Planning	Adequate	Good	Medium: 3	Accepted
Public Rights of Way (PROW)	Adequate	Adequate	High: 2 Medium: 0	Accepted

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3.5.

The Adults phase 2 transformation audit is nearing completion and will be brought to the July G&A meeting.

Data and Information management

3.6. 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	
Information Governance (toolkit compliance)	Adequate	Good	High: 1 Medium: 0	Accepted
IT Hardware Asset Management	Substantial	Good	High: 0 Medium: 2	Accepted
Swift/AIS	Adequate	Good	High: 1 Medium: 2	Accepted
Spydus Application	Adequate	Good	Medium: 2	Accepted
ICT Software Licence Management	Adequate	Good	High: 0 Medium: 4	Accepted
ICT Disaster Recovery follow up	Adequate	N/A	Of the six issues raised, one is fully implemented, one is 'risk accepted' whilst the reminder 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

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3.7. As part of our IT plan for this period we reviewed the adequacy and effectiveness of controls relevant to information governance as prescribed in the 'NHS IG toolkit'. Compliance to this toolkit is essential to allow for data sharing with partner agencies and bodies. Our audit acted as a catalyst for the completion of the toolkit, but a number of elements were incomplete or lacked up to date underlying evidence. Rectification is in hand and will not prevent KCC receiving a compliant rating.

3.8. Our audit of ICT hardware asset management provided positive assurance that appropriate controls are in place, records are accurate and that there is robust governance.

Safeguarding – protecting vulnerable children and adults

3.9. During this quarter we undertook a follow up of supervision controls in Adult Social Care with the following outcome:

	Assurance level	Prospects for Improvement	Issues Raised	
Supervisions (follow up)	Adequate	Good	High: 3 Medium: 1	Accepted
Safeguarding – EYS	Adequate	Adequate	High: 1 Medium: 5	Accepted
Leaving Care (follow up)	Adequate	Good	High: 2 Medium: 5	Accepted

3.10. The previous audit in 2015 had judged supervision controls as 'limited' but in our follow up we found significant progress was being made on the high priority issues identified with rates of supervision increasing in number and frequency. Quality of supervision had also improved with quality assurance controls being put in place and the majority of staff having formal supervision agreements. Workload pressures still remain an issue and are the biggest cause of missed supervisory sessions.

Implications of increased numbers of unaccompanied asylum seeker children

3.11. We have not undertaken any further work in this area, but as a reminder the judgment from the dedicated audit in the previous quarter was:

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

Health and Social Care Integration

3.12. We did not undertake any dedicated work during this quarter, but previous work this year has involved:

	Assurance Level	Prospects for Improvement	Issues Raised	
Autism	Adequate	Good	High: 0 Medium: 2	Agreed

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

3.13. We have undertaken one piece of work during this quarter:

	Assurance Level	Prospects for Improvement	Issues Raised	
Community Learning and Skills (CLS)	Substantial	Good	Medium: 2	Accepted
ICES & Telecare	Substantial	Good	Medium: 3	Accepted
Carers Assessments	Adequate	Adequate	High: 1 Medium:2	Accepted
Managing ‘Step Up’ to Specialist Children’s Services and ‘Step Down’ to Early Help	Substantial	Good	High: 0 Medium: 4	Accepted

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3.14. Our audit of the Community Learning and Skills service found that the key risks in relation to the new delivery model are being well managed, governance arrangements are robust, KPI’s are being monitored and generally achieved and progress is being made in relation to resolving issues relating to financial controls in a previous audit

Financial and operating environments – critical systems and functions

- 3.15. 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:

	Assurance level	Prospects for Improvement	Issues Raised	
Property Asset Disposals	Adequate	Adequate	Medium: 3	Accepted
Accounts Payable and iProcurement	Substantial	Good	Medium: 1	Accepted
Education Capital Plan	High	Good	No issues	N/A
Debt Recovery (follow up)	Adequate	Good	Medium: 2	Accepted
Workforce Planning	Substantial	Good	Medium: 2	Accepted
Schools Personal Service	Substantial	Good	Medium: 1	Accepted
General Ledger	Substantial	Good	Medium: 3	Accepted
VAT	Substantial	Very Good	Medium: 2	Accepted
Insurance Fraud	Adequate	Good	Medium: 3	Accepted
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

- 3.16. In general our work on critical financial and operational systems continued a positive trend.
- 3.17. Our testing of property asset disposals found that they were supported by appropriate reports, quotes and were properly authorised. A potential weakness is that these transactions have limited involvement with KCC officers, being administered by GEN2 who in turn use specialist contractors.
- 3.18. In relation to accounts payable there was positive assurance over the operation of controls and mitigation of risks. The introduction of the iSupplier / iProcurement systems had maintained good control systems with their effective utilisation and operation.
- 3.19. The review of the education capital plan found that there were sound processes for determining needs with associated transparent decision making and comprehensive monitoring systems. Benchmarking was indicative of value for money in building costs.
- 3.20. Our follow up of debt recovery showed that agreed actions are being progressed but that until the introduction of the new CRM system they will remain largely manual systems run from spreadsheets and Oracle reports, making operations less effective.

Civil Contingencies and Resilience

- 3.21. During this quarter we audited Phase 3 of the KRT and a follow up of the previous year’s audit:

	Assurance Level	Prospects for Improvement	Issues Raised	
Kent Resilience Team	Adequate	Good	Medium: 3	Accepted

- 3.22. Unfortunately there were initial difficulties in obtaining information from the lead partner to verify the robustness of the new business case and budget assumptions together with adherence to the service level agreements. Following receipt of this information we concluded that issues raised in our previous audit have now been addressed and that financial information, spend and monitoring information is as prescribed.

4. Other Audit Work

4.1. During the last quarter we have undertaken work in a miscellany of areas, but particularly around selected contracts, road safety and two special investigations:

	Assurance level	Prospects for Improvement	Issues Raised	
Governance Review : GET	Substantial	Adequate	Medium: 5	Accepted
NDORS / Speed Awareness	Adequate	Good	High: 2 Medium: 3	Accepted
TFM Helpdesk (re-visit)	Limited	Good	High: 4 Medium: 1	Accepted
TFM Contract Management (follow up)	Limited	Good	Medium: 5	Accepted
NEET Strategy	Substantial	Adequate	Medium: 1	Accepted
Contact Point	Adequate	Good	High: 4 Medium: 1	Accepted
TFM Help Desk (follow up)	Limited	Uncertain	High: 4 Medium: 1	Not fully addressed
Road Safety & Crash Remedial Measures	Limited	Good	High: 3 Medium: 3	Accepted
Camera Safety Partnership	NA	NA	High: 1	Accepted
Enablement Expenses	NA	NA	High: 1 Medium: 2	Accepted
Carbon Reduction Commitment	N/A	N/A	Judged as "compliant"	

- 4.2. The largest piece of work undertaken this period related to the GET Governance review, where we provided (positive) assurance over the governance and operation of the Directorate that is responsible for annual revenue spend of £164m. Overall we found the Directorate was well led with a grounded vision of current and future provision despite considerable risks and challenges. There was effective devolved financial control and monitoring and a mature approach to commissioning with case studies of obtaining good value to the Council. The Directorate was not afraid to tackle difficult issues and challenge its performance. Outcomes were generally positive despite some service targets being missed.
- 4.3. In the period we also completed a second stage review of the National Driver Offender Retraining scheme (NDORS) which accounts for gross income of £ 3 million. Positives were a largely automated system for course booking with in-built controls. Value for money in terms of venues has not been proven with non-compliance with procurement processes. There was also an absence of documentation and audit trail for waiving course fees or associated cancellation or changes to course attendance.
- 4.4. Issues with the total facilities management (TFM) contract continue. The follow up of the contract management system found that a significant number of issues had not been progressed and the audit was delayed due to the contracting agent being unable to provide timely evidence. Overall there were weaknesses in site visit schedules, work order logs and errors found in KPI deductions or contract fees.
- 4.5. The TFM helpdesk audit has been re-stated due to the delayed submission of evidence from one of the three contractors (that was previously unavailable). This evidence served to underline the issues previously identified with one in four tasks receiving incorrect categories and one in three not being resolved within stipulated timescales.
- 4.6. In both cases we have given the TFM systems 'good' prospects for improvement as a new interim head has been appointed and has shown an ability to start to address the recurring performance weaknesses.
- 4.7. In relation to the audit of NEET, we found that good progress is being made to achieve the strategy , there is rigorous monitoring and control of information and KCC is one of the leading Councils in terms of data accuracy. NEET levels are declining , if slightly above target. Collaborative working is encouraged but it is evident that improvements could be made with integrated working.

Establishment Visits

4.8. During the past 3 months we have concluded audits of 5 Libraries as part of a themed review, with an overall assurance level of :

	Assurance level	Prospects for Improvement	Issues Raised	
Libraries – themed summary	Limited	Very Good	Medium: 1	Central issue raised over consistency of approaches and procedures - Accepted

4.9. Four of the five audits were unannounced and the 5 sites involved were :

Library	Assurance level
Tonbridge	Limited
Dartford	Limited
Gravesend	Limited
Maidstone	Adequate
Tunbridge Wells	Adequate

4.10. Overall the results were disappointing with nearly a quarter of issues raised being of a high risk / priority. In particular we found recurring issues in aspects of financial controls across the majority of sites (purchase cards, income, stock records, petty cash) coupled with failures in elements of safety and security including inconsistent fire alarm tests and drills. There were also weaknesses in access to personal data which risk data security breaches.

4.11. As a positive, (new) library management have responded well to these outcomes and have developed a robust action plan.

4.12. During this period we were also asked to audit a supported living establishment with the following outcome:

	Assurance level
Old Rectory (Learning Disability Supported Living)	Limited

4.13. Although we found no evidence of fraudulent activity and there was file evidence of client purchases there was no inventory of client property available and an absence of any processes governing such assets. Delegated financial authority levels had not been established. The private contractor has accepted our issues and recommendations.

4.14. As a reminder in previous quarters we reviewed (and reported) a sample of Children’s Centres with the following outcomes:

	Assurance level	Prospects for Improvement	Issues Raised	
Children’s Centres – themed summary	Adequate	Adequate	High: 1 Medium: 5	Final Draft

Children’s Centre	Assurance level
Joy Lane (Canterbury)	Adequate
Six Bells (Thanet)	Adequate
Milton Court (Swale)	Limited
Willows (Ashford)	Adequate
Buttercups (Dover)	Limited
Caterpillars (Shepway)	Adequate

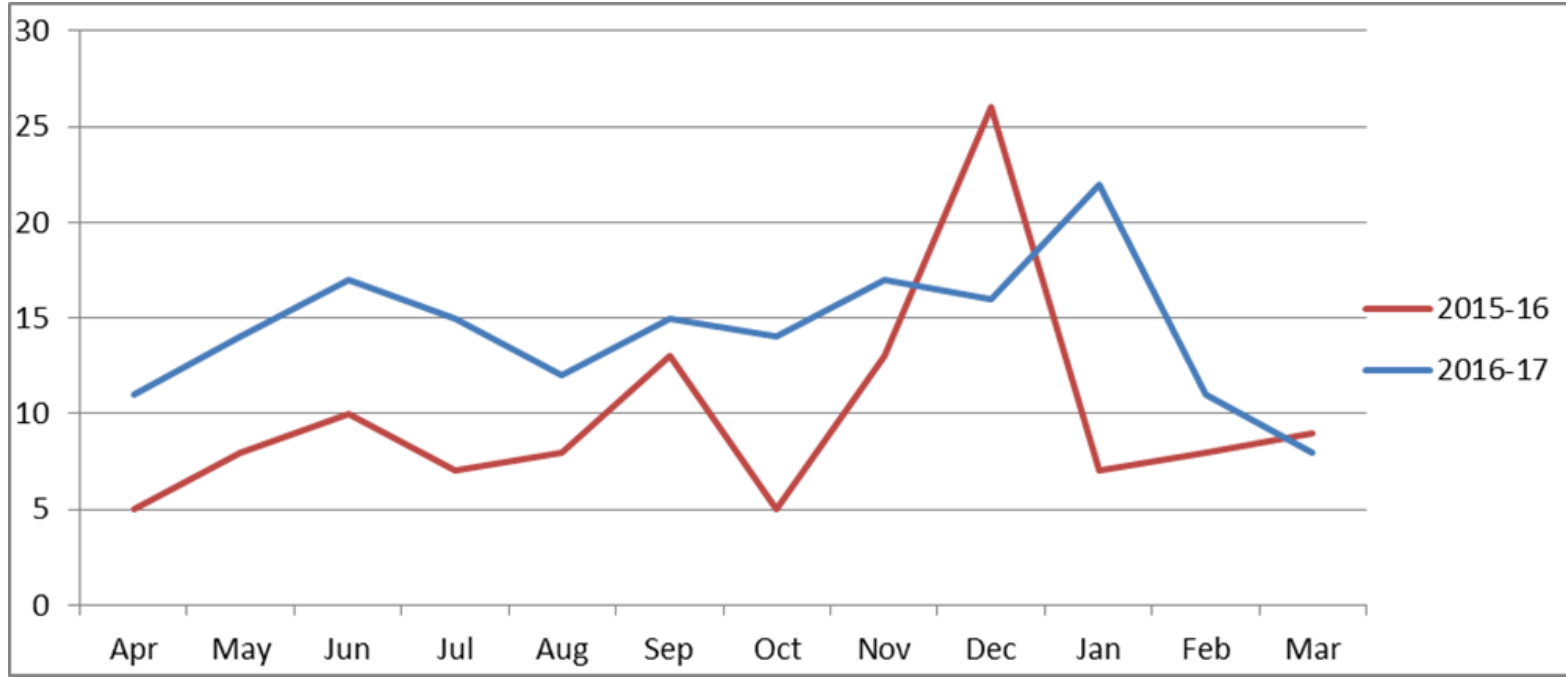
Other Audit Activity

- 4.15. 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 Invicta Law
 - Appointed auditor to 12 Parish Council's
 - Management of the internal audit and counter fraud service at Tonbridge and Malling Borough Council
 - Internal audit of Kent and Essex Inshore Fisheries and Conservation Authority
 - Internal audit of Kent and Medway Fire and Rescue Service

5. Counter Fraud and Corruption - Fraud and Irregularities

- Page 19
- 5.1. To date we have recorded 172 irregularities in 2016/17 of which 61 remain open and 111 have been closed. The potential value for these cases is £780,894.11. 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. The table CF1 shows a clear increase in the amount of irregularities received for the 2016-17 financial year.
- 5.3. Table CF2 shows the effect of the ongoing Blue Badge enforcement work with the Districts. Since 2014/15 there has been a 79% increase in detected Blue Badge misuse. With the continuing training and awareness provided to districts this number will continue to increase.
- 5.4. In addition to the increase in Blue Badge referrals, table CF2 shows an increase in other types of alleged fraud. The number of Social Care referrals have doubled as a result of increasing awareness of Direct Payment misuse and support we are providing to Specialist Children's Services to enhance the verification of applications from families who have for no recourse to public funds
- 5.5. In comparison, during the last financial year the Counter Fraud team recorded a total of 120 irregularities. The 172 irregularities we have recorded for 2016/17 to date is a 70% increase in the total number of irregularities received in 2015/16.

Table CF-1 Number of Irregularities 2015/16 & 2016/17



CF2-Irregularities by Type

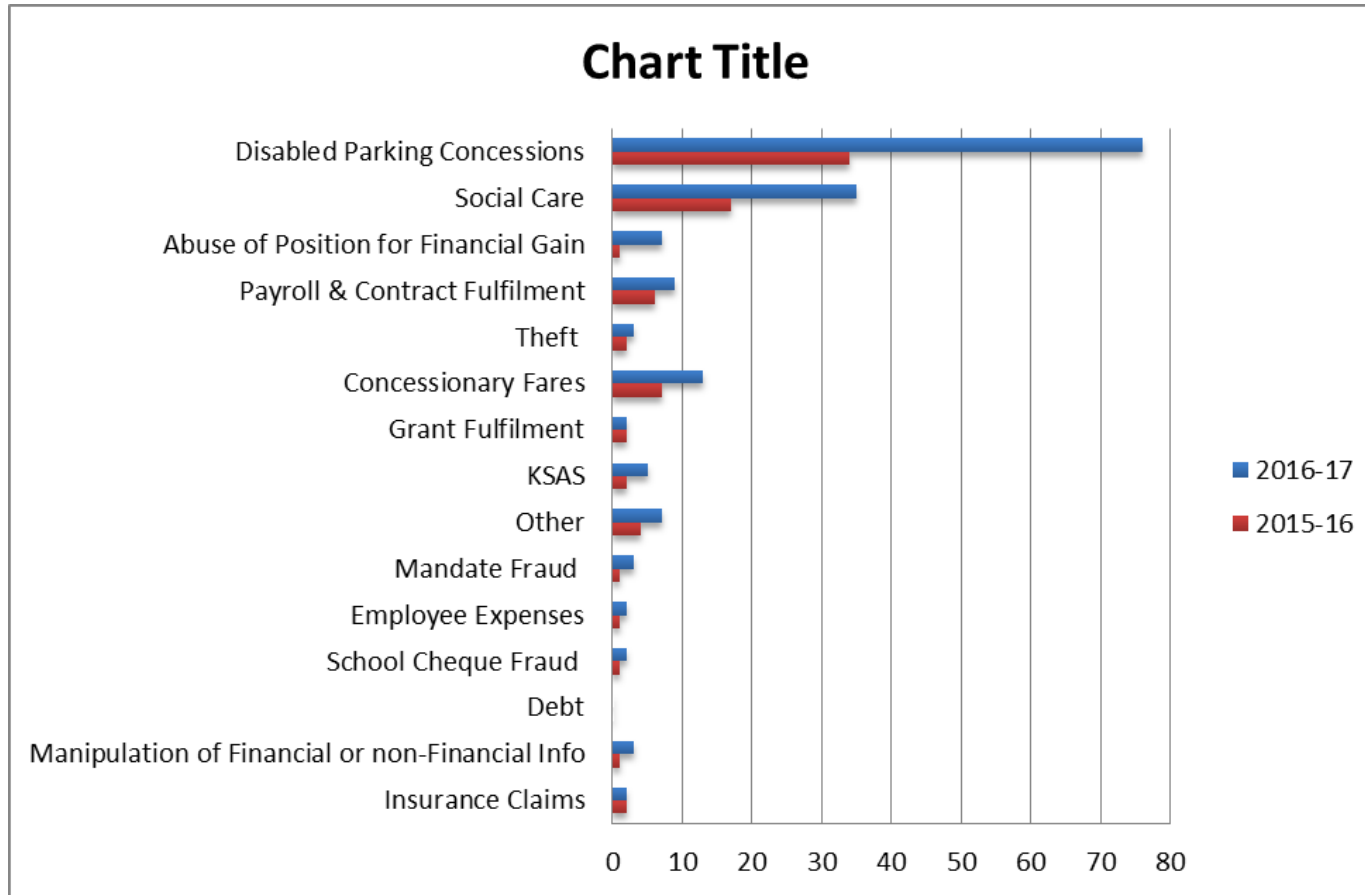


Table CF3 -Irregularities by Directorate

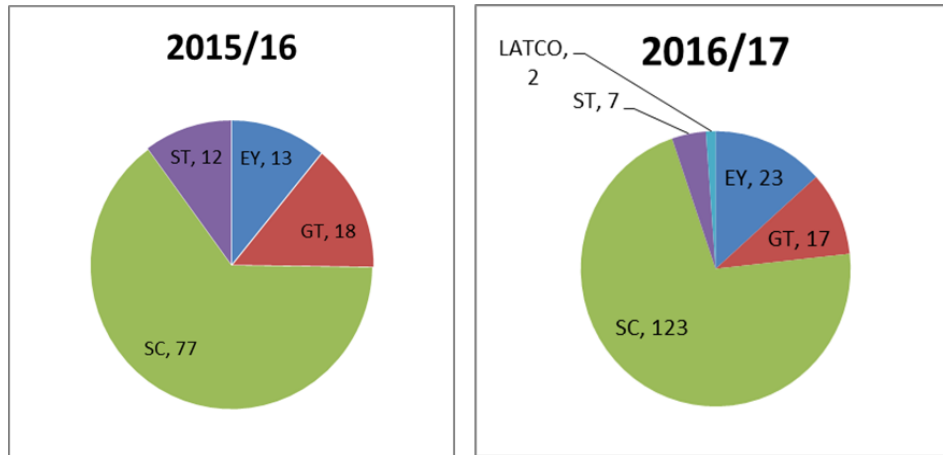
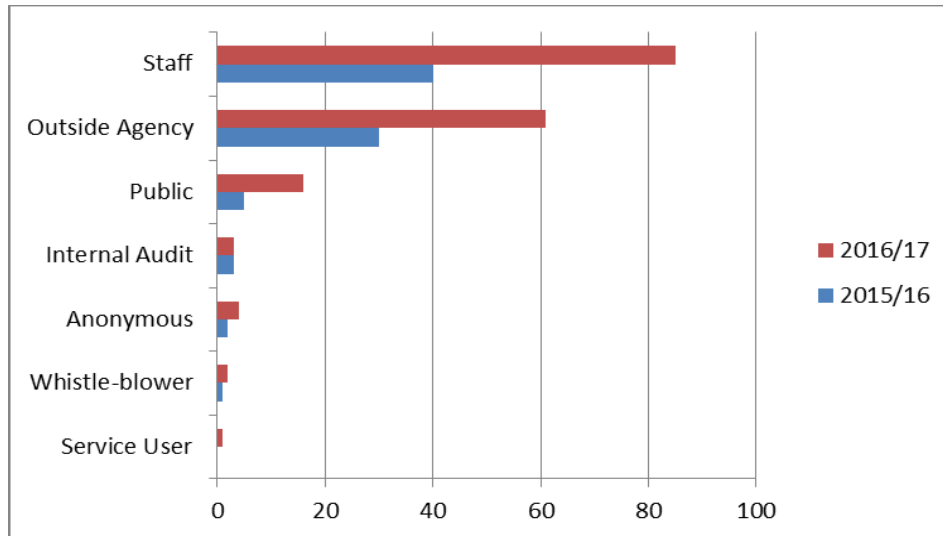


Table CF-4 Referrals By Source



KIN Update

5.6. Since the previous Committee meeting the following has taken place:

- The data supplied by the members has been matched and the results of comparing joint applicants for Social Housing to Council Tax Single Person Discounts were released in November for further investigation. Of the 397 matches released, early results have been provided for approximately 150 with a total value of £1,600. The remaining matches remain under investigation.
- The results of the second data match comparing small business rate relief across Kent have been provided to members for further investigation. 222 matches have been released and we anticipate the results of this work will be received in May 2017.
- The network is currently agreeing a Memorandum of Understanding with the Charity Commission to facilitate an exchange of data. The register of charities will be compared to properties that have claimed charitable relief on their business rates.

6. Internal Audit and Counter Fraud Performance

7.1 Performance against our targets to the start of march 2017 are shown below:

Performance Indicator	Target	Actual
Outputs		
100% of Priority 1 audits completed (by year end)	89%	79%
50% of Priority 2 audits completed	45%	45%
Time from start of fieldwork to draft report to be no more than 40 days	N/A	53%
No of fraudulent incidents / irregularities recorded	N/A	172
Outcomes		
% of high priority / risk issues agreed	N/A	100%
% of high priority / risk issues implemented	N/A	0
% of all other issues agreed	N/A	95%
% of all other issues implemented	N/A	0
Client satisfaction	90%	98%

Performance Indicator	Target	Actual
Total Number of identified occasions of a) Fraud b) Irregularity		74 37
Total monetary value detected of a) Fraud b) Irregularity		£278,823 £8,758
Total monetary value recovered of a) Fraud b) Irregularity		£40,476 £8,758

- 7.2 As part of our work we have identified actual or potential value for money savings of over £300,000.
- 7.3 In general the output outputs are in line with our plans and the level of completion of audits is projected to deliver the audit and counter fraud plan outcomes and targets by the end of 2016/17.

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8 Internal Audit and Counter Fraud Resources

- 8.1 We have had one auditor leave the section for promotion elsewhere and, unfortunately, due to budgetary reductions, this post remains vacant. With other minor staffing reductions, the establishment spend has been reduced by 13% going into 2017/18.

9 Work in progress and future planned coverage

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

9.2 We have the following substantive work in progress

Public Health Governance follow up
Adults Transformation – Phase 2
Strategic Commissioning
IT Network and Cyber Security
Risk Management

9.3 To the end of the year we also have a number of substantive audits to complete including:

LED street lighting
Corporate Governance (selected controls)
Accounts Receivable
Corporate Purchase Cards
Regional Growth fund
Business Continuity Planning
Performance Management and KPI's

9.4 Our planned audits of Adoption and Family Placement Payments were halted with the arrival of OFSTED in March.

10. In Conclusion

- 10.1 We are satisfied that over the past 9 months sufficient internal audit and counter fraud work has been undertaken to allow us to draw a positive conclusion as to the overall adequacy and effectiveness of KCC's standards of control, governance and risk management.
- 10.2 Our follow up work confirms that in general management have taken or have planned, appropriate actions to implement agreed issues.
- 10.3 We believe we continue to offer added value to the organisation as well as providing independent assurance during a time of considerable change.

Annex 1 – Summary of individual 2016/17 Internal Audits issued from January 2017 – March 2017

Not in Employment, Education or Training (NEET) Strategy

Opinion	Substantial
Prospects for Improvement	Adequate

Rationale

The overall findings of the audit are that good progress has been made towards the achievement of the NEET Strategy. Working practices are continuously evolving to encourage young people to work with the Council and associated providers to achieve education and training. Rigorous monitoring and control of information recorded on the Integrated Youth Support Service (IYSS) system was apparent. However, there are disparities with the engagement by training providers, schools colleges and Council departments. Areas of weakness include lack of sharing of best practice and opportunities, obtaining feedback from schools and training providers and ensuring all teams routinely update IYSS.

Key Strengths

- Strategic direction is clear, encouraging clear lines of challenge and accountability and monitoring/review. Reporting of outcomes is robust.
- The collaborative working arrangements encourage engagement between KCC services and with schools, colleges and work based learning providers.
- Essex County Council undertook a peer review of tracking and NEET processes. The findings of this review were positive and were used to develop the KCC NEET Strategy.
- During January 2017 2.98% of young people in Years 12 & 13 were recorded as being NEET slightly above the county target of 2.5%. This represents good progress in terms of delivery of the NEET Strategy.

Areas for Development

- The Information sharing process between partner organisations would be improved
- Schools are not consistently good at flagging up potential NEETs.
- Feedback from education providers, supporting teams and young people should be regularly sought as a basis for the continual improvement of the delivery of the NEET Strategy.
- The absence of a NEET Dashboard which shows trends and successes by partners.

Prospects for Improvement

- The service is evolving, information sharing is improving and there is a real positive direction of travel with the service getting more and more tailored to the young people for which it operates.
- It is recognised that the need to encourage engagement with all partners is key to the full achievement of the NEET Strategy.

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

Community Learning & Skills (CLS)

Opinion	Substantial
Prospects for Improvement	Good

Rationale

The service delivery model is comprehensive and clearly sets out how the service meets their objectives. Governance arrangements were found to be robust if a little overzealous in terms of the duplication of the role and membership of the Client Group and the Strategic Group.

The audit ascertained fair progress in the implementation of the issues raised in the 2015-16 core financial control audit. Of the five recommendations previously raised, two had been fully implemented and three were in progress. An implementation plan has now been agreed.

Key Strengths

- A comprehensive 2016-17 service specification and business plan is in place which links to KCC's strategic objectives.
- Key performance indicators (KPIs) are monitored on a quarterly basis included in the Head of Service report to the Client Group.
- The majority of KPIs are being achieved; where they are not, the reasons behind this are understood and appropriate action is being taken.
 - The risk register is routinely monitored and reported. Risks are understood and mitigating actions are in place.
 - Provider contracts are routinely monitored and performance reported.
 - The service achieved 'Good' across all areas from an externally commissioned health check and Ofsted report.
 - A healthy 2016-17 budget surplus is predicted with a good level of income from fees.

Areas for Development

- Some accommodation used by the service is of poor quality.
- There is duplication between the role and membership of the Client Group and the Strategic Group.
- The Stakeholder Group only met once in 2016 therefore potentially undermining quality assurance controls.
- From our sampling, 1 in 4 invoices had not been raised within 60 days.
- Banking had not consistently been performed each week and 1 centre reviewed exceeded the £500 cash limit.

Prospects for Improvement

- Senior management have been receptive to the issues raised and have agreed to review non-adherence to cash limits.
- It is aimed that the Strategic Group will be disbanded and the remit of the Client Group expanded.
- Three of the 5 audit actions raised in the 2015-16 review are still in progress; management have taken action towards their full implementation.

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	4	4	0

Summary of Core Financial Controls Follow Up Findings

	Number of issues	Management Actions complete	Actions in progress
Medium Risk	3	1	2
Low Risk	2	1	1

Education Commissioning – Capital Plan

Opinion	High
Prospects for Improvement	Good

Rationale

Processes for identifying needs and determining the optimal solution to meet those needs are robust in design and effective in practice. Although there are risks associated with delivering the Plan due to financial pressures and reliance on other agencies, these are very well understood by the service and actions are being taken to mitigate these.

Key Strengths

- There is a sound process in place for determining the commissioning need which is based on granular analysis
- There was a robust rationale for the identified capital need for all projects in our sample
- There is a clear, transparent set of principles for making commissioning decisions and all of the projects in our sample reflected these principles
- Benchmarking by GEN² against other local authorities shows that KCC is receiving value for money in terms of the building costs
- Comprehensive monitoring systems are in place for monitoring delivery of the Plan; detailed reports are presented to key stakeholders and there was evidence of scrutiny
- For all projects in our sample, the places were available for when they were needed
- Risks are very well understood and actions are in place to mitigate these as far as possible
- For all projects in our sample, the places were available for when they were needed

Areas for Development

- Arrangements between the service and GEN² require additional clarification to reflect the new commissioner / provider relationship. This risk may increase as GEN² continue to develop their commercial identity

Prospects for Improvement

- The service is continually reviewing and refining its processes to ensure ongoing improvement
- Risks to service improvement are understood and responses are in place to manage these
- The financial climate continues to remain challenging

Summary of management responses

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

GET Governance Review

Opinion	Substantial
Prospects for Improvement	Adequate

Rationale

Our overall opinion is that governance arrangements for the GET directorate are Substantial. The directorate displayed a clear and well-grounded vision for the current and future provision of GET services which appears measured and appropriate for the risks and future challenges to be faced. A number of individual successes and well led service improvements have already been achieved.

Key Strengths

- A well respected and visible leader with a dedicated, joined-up management team who work well together and reflect the diverse range of services provided by GET.
- A good over-arching directorate business plan with a clear strategy and vision that is linked to KCC's Outcomes framework and articulates key risks and performance measures for monitoring achievement.
- Management meetings throughout GET are well organised and structured, with key risks and issues being discussed.
- Top level Member involvement and support is good.
- Good challenge and iteration over Key Performance Indicators which generally show a positive direction of travel despite some service targets being missed.
- Managers understood their current budgets and demonstrated effective monitoring of a demand led budget that can be erratic.
- Mature approach to commissioning whilst seeking innovative ways of optimising value.
- Evidence of tackling difficult issues and challenges (e.g. Allington Waste and Coroners) so that the best outcome possible is achieved.

Areas for Development

- There is a need to formally resolve whether the proposed revised GET governance model as outlined in the Business Plan is to be introduced.
- There has been a tendency to utilise a mix of short and longer term savings options to meet financial targets. Longer term, structural changes and service transformation will be needed to meet future savings targets
- Further develop cross-directorate working so that better outcomes can be achieved.
- It is evident that some back office contracts are not servicing GET well.
- We were given isolated, but important, examples of tensions or lack of 'buy in' within certain divisional teams, partly around funding issues, which will require careful management.
- The format of Divisional business plans varied between each division.
- The benefits expected of an "internally commissioned" LRA service have yet to be realised fully.

Prospects for Improvement

- Strong leadership and good "tone from the top", with a can do attitude for addressing future challenges.
- Cohesive team working within the DMT.
- Investment in workforce development.
- Good continuing focus on service users and other stakeholders.
- On-going and significant financial challenges, in particular for services which are demand led.
- There are genuine concerns that there will be less opportunity to generate financial savings as contracts are re-commissioned

Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
Medium Risk	5	5	n/a

ICT Hardware Asset Management

Opinion	Substantial
Prospects for Improvement	Good

Rationale

The audit found that the BSC service desk team have documented procedures for all of the major activities involved in the management of ICT hardware assets. However, there is no ICT Asset Management Policy in place to support BSC's implemented procedures to effectively manage the IT hardware assets.

There were three separate IT asset tracking methods in use which are not integrated – one each for workstations (desktops and laptops), network devices and servers. The main Supportworks database is not always updated promptly with asset additions and deletions and there is no oversight of amendments made to the asset register.

Our audit opinion of Substantial is based on the following strengths and areas for improvement:

Strengths

- ICT asset registers are in place covering all relevant assets and were found to be accurately maintained, with minor exceptions.
- BSC service support team have appropriate and up to date procedures in place for updating the Supportworks database.
- New ICT hardware assets are tested for compatibility with the current ICT infrastructure.
- A Request for Change is raised for ICT hardware assets (server, switch, firewall, etc.) when an asset is decommissioned or when a new asset is introduced in the organisation.
- ICT hardware assets are uniquely identified by their asset tags.
- The ICT hardware assets inventory is reviewed annually for any discrepancies by the BSC service support team for assets they manage.

Areas for Development

- The Council did not have an ICT Asset Management policy in place (although this has since been addressed).
- Three separate asset registers are maintained by BSC teams, covering the service desk (laptops, desktops and monitors), servers and network assets – there is currently no centralised asset register covering all ICT assets.
- A small number of assets were identified in the store room which were not updated in the service desk asset register, SupportWorks CMDB.
- There is no oversight/ checking of amendments to the SupportWorks asset register.

Prospects for Improvement

- All issues raised have been promptly considered by management and appropriate corrective action plans developed.
- There is a good understanding from all BSC teams of their processes for maintaining the ICT hardware asset registers and for disposing of ICT hardware assets.
- The BSC service support team have the required training for maintaining the asset inventory on the database.

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	2	2	0

Information Governance Toolkit Compliance Review

Opinion	Adequate
Prospects for Improvement	Good

Rationale

At the time of our audit (January 2017) evidence was still in the process of being collated, reviewed and uploaded onto the Toolkit and hence we were not able to fully assess its completeness. However, we have reviewed what evidence was available in preparation for the 31st March 2017 deadline and discussed the actions being taken to obtain suitable evidence for requirements of the Toolkit which were incomplete.

Key Strengths

- The yearly process was started with sufficient time for all relevant parties to engage so that suitable evidence could be identified and uploaded to support a satisfactory rating for each requirement.
- The Corporate Information Security Officer had prepared a paper advising key contacts of the evidence needed to support this year's submission.

Areas for Development

- There are a number of areas across all requirements where evidence remains outstanding, although we have been assured that this is in hand and will not impact the Council applying for an overall satisfactory rating. As previously noted, we have confirmed some of this evidence.
- More up to date evidence is required to support some of the requirements, for example the data performance reports attached as evidence were almost 2-years old.

Prospects for Improvement

- It was evident from discussion with the Corporate Information Security Officer that processes are continually evolving, which may impact on whether suitable evidence is identified and made available promptly.
- We were advised that availability of the Corporate Information Security Officer was reduced this year (due to focus being diverted to other work). We understand that in future years completion of the Toolkit will be supervised by the Information Governance Cross Directorate Group.
- One agreed action from the 2015 and 2016 IG Toolkit Audit reports (relating to documentation of information sharing arrangements) remains outstanding. We understand that progress is being made, but resolution remains in progress.
- The issues over communication around risks of submission of information still continue.

Summary of management responses

	Number of new issues raised	Issues b/f from previous audit	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	0	1	n/a
Medium Risk	0	1	1	n/a
Low Risk	0	0	n/a	n/a

Kent Resilience Team Phase 3 and Follow-up

Opinion	Adequate
Prospects for Improvement	Good

Rationale

Following our audit in 2015-16 which judged the Kent Resilience Team as Adequate, we further reviewed the key risks in relation to the new business case to ascertain whether they are adequately managed and assessed the governance arrangements. Whilst the business case was found to be comprehensive, the version originally provided was the draft and such had shortfalls, the majority of which were addressed in the final business case. We can now conclude that following receipt of the final business case provided after the completion of audit work, that the majority of recommendations made were incorporated into this business case.

Key Strengths

- Areas where improvements were required were set out in the Kent Resilience Forum meeting held on 22nd March 2016.
- In March 2015 capability surveys with the 18 partner organisations were undertaken to identify areas of good practice, to inform the annual work plan and to influence the training and exercise programme.
 - The annual plan is resourced through the tasking and coordination process.
 - There is a coordinated approach to training which is supplemented by individual partner organisations' training programmes. The training is endorsed by the Kent Resilience Forum and accredited by the Emergency Planning Society as best practice.
 - At the end of each training event, evaluation forms are completed. The evaluation forms are reviewed to summarise trends and identify any areas where improvement is required.
 - New areas of work are a standing agenda item at the monthly Tasking & Coordination meeting; the aim is to capture them in the business plan.

Areas for Development

- We were not provided with much of the information needed to enable us to complete our audit and provide assurance until after the agreed dates for fieldwork, despite repeated requests. The information that was not provided included key financial information and a response to the issues that were raised with managers, .
- At the time of audit fieldwork, signed partnership agreements had not been obtained for 3/18 organisations. We have since been advised that there is now only 1 outstanding unsigned partnership agreement.
- Performance monitoring against all key objectives had not been consistently included on the Steering Group agenda.
- The terms of reference of the Steering Group require expansion to ensure that the committee is successful and meets its objectives and specified purpose.
- The statement to the Environment and Transport Cabinet Committee on the implementation of Internal Audit actions said that the direction of travel was good and that the system of control is sufficiently sound with some recommendations for development that have been acted upon and delivered. It is our opinion that this is not a complete reflection of our findings. The findings of the follow-up audit concluded that of the 5 recommendations raised in the 2015/16 review; 4 have been implemented and 1 is in progress.

Prospects for Improvement

- It is of concern that during the audit management did not respond to the issues that we raised with them. Key information was not received until after completion and as a result of escalation. However, we are now satisfied that the issues raised are being addressed.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	0	NA
Medium Risk	3	3	NA
Low Risk	0	0	N/A

Libraries Themed Report

Opinion	Limited
Prospects for Improvement	Very Good

Rationale

Overall 29 recommendations were raised from the 5 sites visited, of which 23% were high priority. We have concerns over the operation of a number of critical financial and non-financial controls operating across libraries, particularly security and safety measures.

We have raised one additional central issue for Library, Registration and Archives to raise knowledge levels and ensure consistency in approach across all Library, Registration and Archive hubs in Kent.

Key Strengths

- All Centres are using iProcurement, with the majority of purchase orders being raised in advance of an invoice.
- All expenditure has been approved in line with the Council's delegated authority matrix.
- Banking of income is occurring on a frequent basis.
- Reports available through the Spydus system (Library Management System) are available to identify differences in the daily amount taken against the daily amount banked.
- Management within individual libraries is appropriately engaged to resolve the issues identified from the Establishment audits through the development and implementation of action plans.

Areas for Development

- There are a number of weaknesses in financial control across all five Libraries, particularly relating to purchase cards, delivery notes, income, stock records petty cash and asset registers.
- There were inconsistencies in how exceptions between the daily amount banked and expected daily takings were being investigated.

- Security and safety processes are not consistently embedded throughout all Libraries – for example we identified instances of insufficient risk assessments and a lack of management actions on accident forms. In addition to this there had been inconsistent fire alarm tests and fire drills carried out. These issues clearly have safeguarding implications for Library users.
- Not all staff have completed KCCs mandatory training on Data Protection, Information Governance and Prevent. There were also instances of poor building security and failure to restrict access to personal data, which both increase the risk of a data security breach.
- Staff TOIL and timesheets, including those for agency staff, are either not in place or not regularly authorised.

Prospects for Improvement

- Library Managers have responded positively to the issues raised in this report and have either implemented actions immediately or developed appropriate action plans to address them.
- The Operational Service Team (OST) which comprises of Area Managers have developed a robust action plan and are implementing a check list to ensure key activity/controls are in place across all libraries in Kent.
- Senior Management have responded positively to the central issue raised in this report and developed an appropriate action plan to address it.

Summary of management responses

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

National Driver Offender Retraining Scheme – Phase 2

Opinion	Adequate
Prospects for Improvement	Good

As part of the 2016/17 Audit Plan it was agreed that Internal Audit would undertake a review of the controls in place to effectively manage the speed awareness function and financial contributions to the Kent & Medway Camera Safety Partnership. The audit was undertaken in 2 stages, with the first being an advisory review of the Kent & Medway Safety Camera Partnership and National Driver Offender Retraining Scheme (audit reference AD05 2017).

Kent County Council provides National Driver Offender Retraining scheme (NDORS) courses for over 32,000 clients, on behalf of Kent Police. This report covers the second stage of the audit and focusses on providing assurance over the financial and recording arrangements in place to meet KCC's obligations as a National Driver Offender Retraining scheme (NDORS) course provider.

Key Strengths

- KCC has a current licence to deliver NDORS courses and are using NDORS accredited trainers.
- Appropriate online and telephone booking systems are in operation. Course provisions are forecasted and automated controls ensure courses are not overbooked.
- All clients tested paid for a course prior to attendance. 92.9% of clients had confirmation of course completion on the relevant course register.
- A customer feedback process has been introduced in March 2017.
- Sufficient automatic controls are in operation for card refunds.

Areas for Development

- There is no documented policy for the recruitment of self-employed NDORS Trainers. Advice has not been obtained from Human Resources to ensure that the current arrangements are sufficiently robust to protect the authority from future employment law claims.

- Venue cost for courses have not been reviewed to understand if the current arrangements are value for money. The KCC procurement process has not been followed for venues where the yearly cumulative spend is in excess of £8,000.
- The self-employed NDORS trainer hourly charges has not been reviewed or benchmarked for several years.
- For significant number of clients, the course register did not confirm if the course attended was completed.
- A significant number of clients' fees were waived without managerial authorisation and we found instances of insufficient or missing evidence to support valid non-attendance (such as medical conditions).
- In 33.3% of cases, the notification to NDORS of non-attendance was late (not within 48 hours).
- Team procedure notes have not yet been fully completed or version controlled.

Prospects for Improvement

- Management has fully cooperated during the audit process and have used the audit to develop and improve their processes.
- A new Divisionary Scheme Team Leader was appointed in June 2016 who has supported the audit process to identify control weaknesses.
- The client booking system is undergoing an upgrade to enhance functionality and introduce further automated controls.

Summary of management responses

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

Payments Process (Accounts Payable & iProcurement)

Opinion	Substantial
Prospects for Improvement	Good

Rationale

We have identified several areas of good practice and improvements that have been made since the previous audit in 2015/16. All issues previously identified have now either been implemented or are no longer relevant due to changes in process.

Key Strengths

- Financial authorisation limits within iProcurement (iProc) and the Flexfield checker align to the Council's delegated authority matrix.
- New iProc users are checked for accuracy when they are set up and access is not granted unless staff have completed the necessary E-learning.
- Staff that leave the organisation have their iProc access rights removed in a timely manner.
- Manual invoices over £50,000 are checked by AP prior to payment.
- Invoices created through iSupplier are accurate and a system default is applied to all suppliers ensuring invoices are not paid until receipted in iProc
- Processes for identifying duplicate payments are effective.
- New commercial supplier set ups are now processed through the P2P team and the process in place to check and approve these is robust.
- Supplier credit balances have significantly reduced since the previous audit.
- The year to date performance for the KPI % of invoices received on time and entered into AP systems by KCC due date is 98.3%.
- The proportion of invoices processed through iProc from manual suppliers is at 92.6%.

Areas for Development

- We were unable to evidence that Commercial Services, who account for c£2million of monthly spend through iSupplier, have signed KCC's iSupplier terms and conditions.
- There is no process in place to identify whether suppliers who have taken up the early payment discount are actually applying this discount to invoices.
- Procedures notes and guidance do not consistently record the date of creation and date of review.

Prospects for Improvement

- The number of manual supplier invoices processed through iProc has increased to 92%
- All capital codes active on CP are populated on the capital flexfield checker and work continues to include codes that do not appear on CP.
- Corrective action has been taken on all issues raised in previous Payment Process audits.
- The P2P team are liaising with the Oracle eBusiness Suite (OBS) team to find a solution to ensure suppliers who have offered early payment discounts apply this discount.

Summary of management responses

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

Procurement and Contract Management Follow-up

Opinion	Adequate
Prospects for Improvement	Good

Internal Audit carried out a series of reviews relating to Contract Management and Procurement as part of the agreed 2015/16 Annual Audit Plan. The audits and the opinions given were as follows:

Contract Extensions and Variations	Adequate
Contract Management Themed Review	Limited
Contract Management – Individual Contracts based on Analytical Review	Limited

Rationale

In a summary we previously raised four high priority issues and five medium priority issues across three audits. Our follow-up testing found that the agreed actions for two high and four medium priority issues were implemented within the agreed timescales; one high priority issue was found to be in progress and another had been superseded. Corrective actions had been put in place to address the completeness of the contract register but unfortunately gaps were still identified.

However, audits and investigations undertaken within 2016/17 have identified that contract management principles are still inconsistently applied within the organisation. For example, we found issues with KPIs and performance management for two contracts reviewed. We are also currently investigating two contracts that were not approved in line with the scheme of delegation. However, the outcomes from these investigations have yet to be concluded are therefore still unsure.

Overall therefore issues around approvals for contracts, the completeness of the contract register and consistency over the performance management of contracts remain to be fully resolved.

Contract Extensions and Variations

Issue	Conclusion from testing
Procedures and Guidance (Medium)	Implemented
Contracts extended or rolled over several times (High)	Implemented
Authorisation Limits (High)	Implemented

Contract Management Themed Review

Issue	Conclusion from testing
Contracts Register (High)	In progress
KPIs and Monitoring (Medium)	In progress
Contract risk register and issues logs (Medium)	Implemented
Lessons Learnt (Medium)	Implemented
Training (Medium)	Implemented

Contract Management – Individual Contracts based on Analytical Review

Issue	Conclusion from testing
Contract Management (High)	Partially implemented - outstanding actions superseded by the contract register issue raised within Contract Management Themed Review.

Summary of Issues

	Number of issues raised in previous audit	Implemented and closed	Not fully addressed and further actions agreed
High Risk	4	3	1
Medium Risk	5	4	1
Low Risk	0	0	0

Property – Disposal of Assets

Opinion	Adequate
Prospects for Improvement	Adequate

Rationale

GEN2 contracts with KCC's Property Strategy, Commissioning and Client function through a Service Level Contract (SLC) dated 29th April 2016. Our work has tested individual property disposals that were completed in 2016-17 by GEN2 and found that in all instances the disposal was fully supported by appropriate reports, quotes etc and that the disposal decisions were taken by an authorised officer.

Reliance is placed on the staff and external contractors employed by GEN2 to manage the process and to advise KCC in order to achieve the best outcome for each individual property disposal. Therefore, although all disposal recommendations we reviewed had been appropriately authorised, we noted that there was limited direct involvement by KCC officers in the property disposal process. There are, however, regular progress reports to senior officers and members.

Strengths

- All disposals tested were correctly authorised in line with the constitution.
- There is effective transparency through a Property sub committee and minutes from these committees are discussed at the Property & Resources Cabinet meetings held bi-monthly.

Areas for Development

- The current Asset Management Strategy is dated 2013–17 and is already out of date given the changes that have taken place in KCC during this time. The Strategy for 2018-22 has yet to be produced and approved.
- There are no documented procedures setting out the process and to ensure appropriate records are maintained to record and document the key steps and decisions for each property disposal.
- The K2 Property system is not being fully utilised as an asset management system.

Summary of management responses

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

Supervision Follow-up

Opinion	Adequate
Prospects for Improvement	Good

Rationale

Our follow-up work highlighted that there has been significant progress since our original audit, including actions on the three high priority issues raised. The majority of staff, 82% in LD and 61% in OPPD, had either received regular supervision or had only missed one cycle out of 7. Supervisees also rated the quality of their supervisions positively. Our previous audit identified a high level of stress in OPPD; our follow-up found that, although caseloads remain high, staff generally felt supported, issues were discussed with supervisors and actions put in place. Quality assurance arrangements have also been put into place and the vast majority of staff had supervision agreements.

As above, our testing did identify that 40% of staff in LD and 60% of staff in OPPD had not received all 7 supervision sessions. The largest reason for this was workload pressures leading to supervisions being cancelled and not rearranged. This accounted for 47% of missed supervisions in LD and 33% of missed supervisions in OPPD). However another key reason was changes in supervisor; notes had not been transferred between supervisors so we were unable to ascertain if supervisions had taken place or not. There was no evidence of quality assurance checks of service user files.

The service has plans in place to ensure that there is a continued positive direction of travel.

Follow-up findings

Issue	Priority Level	Conclusion from testing
Emerging Risks	High	In Progress
Record Maintenance	High	In Progress
Supervision Arrangements	High	In Progress
Policy and Supervision Agreements	Medium	Implemented
Quality of Supervision	Medium	In Progress
Monitoring and Quality Assurance	Medium	Implemented

Summary of Issues

	Number of issues raised in previous audit	Implemented and closed	Not fully addressed and further actions agreed
High Risk	3	0	3
Medium Risk	3	2	1
Low Risk	0	0	0

TFM Contract Management – Follow Up

Opinion	Limited
Prospects for Improvement	Good

Rationale

This audit has been significantly delayed by the inability of the contracting agent to provide timely evidence for our work. Contractors need to be reminded that it is a breach of KCC Financial regulations and the contract with KCC to fail to provide information to Internal Audit.

Further audit sample testing and enquiries demonstrate that progress has been made, with two High Risk and three Medium Risk issues now closed. Five medium priority issues raised in the previous audit report have not been fully addressed and further actions have been agreed.

Strengths

- Access to contractor systems has now been provided.
- An issues log for all three contractors identifying themes has been implemented.
- Risk registers have been implemented and have captured relevant risks for all three contracts.
- Appropriate cells within KPI spreadsheets have been protected and cannot be amended.
- Arrangements have been implemented to define day to day responsibilities.

Areas for Improvement

- Two of the three contractors did not have a site visit schedule during the audit and a number of cancelled visits for West Kent were not re-scheduled.
- Work order logs for West Kent and East Kent were not kept up to date and there are some inaccuracies in the information on the logs.
- For a sample of 15 CCNs, nine were either outstanding at the time of the audit or key signatures were not retained to demonstrate the appropriate authorisation had been granted.

- For Mid-Kent, KPI deductions for February 2016 have not been made. It is understood that these deductions will be collected in March 2017.
- For Mid-Kent, a catering services charge of £56,568.20 was added to the 'year 2' core contract fee. This is believed to be an error and is currently under investigation.
- For West Kent and East Kent we found that the CCN log was not accurate or complete.

Prospects for Improvement

- KCC Property team are working closely with Gen2 (who manage the TFM contracts for KCC) to improve contract management arrangements and hold them to account where performance needs improvement.
- New contract managers are now in place (within Gen2) for 2 of the 3 contracts and a new Interim Head of TFM Contracts has also been appointed to strengthen this area.

Summary of management responses

	Number of issues raised in previous audit	Implemented and closed	Not fully addressed and further actions agreed
High Risk	2	2	0
Medium Risk	8	3	5

TFM Helpdesks – Follow Up Addendum following Kier work

Opinion	Limited
Prospects for Improvement	Good

Further audit sample testing and enquiries found that although some progress has been made, the high and medium priority issues raised in the previous audit report have not been fully addressed. Further actions are being taken by KCC to ensure GEN2 as the commissioned contract managers engage with Kier to improve their service delivery in line with the TFM contracts.

We also understand that the Kier Helpdesk is planning to migrate to a new system in May 2017 which may address some of the unresolved issues.

Previous Issue	Conclusion from testing
Call Coding (High Risk) Page 101	The full range of call specifications has been adopted. From 30 tasks sample tested across, 8 (26.6%) had the incorrect category applied. Issue remains open and further actions agreed.
Telephone Calls answered within sixty seconds (High Risk)	Call response reports are available but they do not provide sufficient information to understand individual call breaches. Therefore, no progress has been made from the initial audit. Issue remains open and further actions agreed.
Jobs undertaken within agreed timescales (High Risk)	From the 30 tasks sample tested, 10 (33%) were not resolved within the SLA and 2 failed the 'contain time' but met the overall SLA. In addition, 12 tasks were left open as they are awaiting supporting paperwork. Issue remains open and further actions agreed.
Repeat Requests (High Risk)	Repeat Failures instead of repeat requests are reviewed. Issue remains open and further actions agreed.

Complaints Process (Medium Risk)	A formal complaints handling process has been agreed, but has not yet implemented. Issue remains open and further actions agreed.
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Prospects for Improvement

- KCC and Gen2 Management have full cooperated with all requests during the audit process.
- A new Interim Head of TFM has been appointed by Gen2 and has begun to address performance weakness.

Summary of Issues

	Number raised in previous audit	Implemented and closed	Not fully addressed and further actions agreed
High Risk	4	0	4
Medium Risk	1	0	1
Low Risk	0	0	0

The Old Rectory – Bespoke Establishment Audit

Opinion	Limited
Prospects for Improvement	n/a

Rationale

Following safeguarding concerns into alleged financial irregularities and The Old Rectory's willingness to be transparent in their involvement with client finances we performed an announced visit to The Old Rectory. Overall we were able to reconcile client expenditure, however there were some improvements required to the system of financial control. Below we have summarised the key strengths and areas for improvement.

Strengths

- Individual client files were held and receipts for purchases made by the home on behalf of the client were available to reconcile to invoices.
- Itemised expenditure is provided to Client Financial Affairs prior to payment being made.

Areas for Improvement

- Inventory of client property to be established, together with a process for its regular update and review.
- Receipts should be obtained and stored to support cash withdrawals that are above the standard 'pocket money' level.
- Updating the transport/outing form to record the number of miles completed for the journey and the rate per mile.
- Delegated financial authority levels should be developed and embedded into documentation.
- Enhance the 'new home letters' to advise homes facilitating personal allowances of what their delegated authority is, with homes requiring to sign and return a copy

Summary of management responses

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

Debt Recovery Follow-up

Opinion	Adequate
Prospects for Improvement	Good

Rationale

Further audit testing and enquiries demonstrate that the agreed action plans have been progressed for most issues although a number are not complete in part due to the pending implementation of the new CRM system. Further actions have been agreed

Previous Issue	Conclusion from testing
Update and Availability of the Training Manual (Medium Risk)	The latest training manual is dated 15/4/16. The training manual will need to be updated when CRM is introduced in 2017. Issue remains open
Revised Debt Management Policy (Low Risk)	The Debt Management Policy has been updated to include all relevant financial regulations and the relevant delegated officers. Issue has been closed off.
Debt Monitoring and Recovery Process (Medium Risk)	The CRM system has not yet been implemented and large Excel spreadsheets are still being used to record the work performed and timelines for debt collection. The CRM system is due to be implemented from January 2017 and this should improve debt recovery and management, but the effect is not expected to be felt for several months. Issue remains open.
Escalation of Debts to Legal (Medium Risk)	The Legal spreadsheet is kept on K drive. The spreadsheet records the position of each debt referred to legal. The spreadsheet is up to date but requires on-going monitoring. It is acknowledged that a SLA for the service will be required when Legal become a LATCO in 2017. Issue has been closed off.

Write Off Authorisation (High Risk)	The write off form is version controlled and all team members use the updated forms. The Financial Services Client Manager reviews and authorises all write offs. A spreadsheet is maintained to reconcile all write offs processed in Oracle with those authorised by the client manager. Issue has been closed off.
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Summary of Issues

	Number of issues raised in previous audit	Implemented and closed	Not fully addressed and further actions agreed
High Risk	1	1	0
Medium Risk	3	1	2
Low Risk	1	1	0

Annex 2 - Audit Plan 2016/17 Progress

Project	Progress at April 2017	Date to G&A	Overall Assessment	Project	Progress at April 2017	Date to G&A	Overall Assessment
Core Assurance							
Business Continuity	In progress			Programme Management and Corporate Assurance Functions	In progress		
Procurement and Contract Management Follow-up	Complete	April 2017	Adequate/ Good	Business Change/ Check point Reviews	Watching brief		
Procurement and Contract Management – Tender Specifications	In progress			Implementation of Strategic Commissioning Framework	Planning		
Tail-spend	Audit Cancelled	N/a	N/a	Transformation and Change – Delivery of Savings and Other Outcomes – 0-25 portfolio	Complete	January 2017	Limited/ Good
Transformation and Change – Delivery of Savings and Other Outcomes – Adults portfolio	Draft Report			Staff Survey – Response and Actions	In progress		
Performance Management and KPI Reporting	In progress			Business Planning	Complete	January 2017	Adequate/ Good
Annual Governance Statement 2015/16	Complete	June 2016	Substantial/ Adequate	Payroll – Outsourced Contracts	Complete	October 2016	Substantial/ Good
Risk Management	In progress			Recruitment Controls re TUPE Transfer Staff Follow-up	Deferred	N/a	N/a
Information Governance	Complete	April 2017	Adequate/ Good	Schools Personnel Service	Complete	January 2017	Substantial/ Good
Freedom of information Requests	Complete	October 2016	High/ Good	Workforce Planning inc. Succession Planning	Complete	January 2017	Substantial/ Good
Data Protection	Complete	October 2016	Adequate/ Adequate	TCP Process	Complete	October 2016	Substantial/ Good
Bribery and Corruption	Complete	October 2016	Limited/ Good	Recruitment – Use of Agencies	Deferred to 2017/18	N/a	N/a

Project	Progress at April 2017	Date to G&A	Overall Assessment	Project	Progress at April 2017	Date to G&A	Overall Assessment
Corporate Governance – KCC as a Whole	In progress			Declaration of Interest	In Progress		
Departmental Governance Review - GET	Complete	April 2017	Substantial/Adequate	Data Quality	Merged with KPI audit	N/a	N/a

Project	Progress at April 2017	Date to G&A	Overall Assessment	Project	Progress at April 2017	Date to G&A	Overall Assessment
Core Financial Assurance							
General Ledger	Complete	January 2017	Limited/Good	Debt Fraud	Cancelled	N/a	N/a
Revenue Budget Monitoring	Deferred to 17/18	N/a	N/a	Insurance	Complete	January 2017	Adequate/Good
Value Added Tax (VAT)	Complete	January 2017	Substantial/Very Good	Medium Term Financial Planning	Complete	January 2017	Substantial/Adequate
Payments Processing	Complete	April 2017	Substantial/Good	Family Placement Payments – Controcc Implementation, Phase 2	Planning		
Accounts Receivable	Draft Report			Debt Recovery Follow-up	Complete	April 2017	Adequate/Good
Corporate Purchase Cards	In progress						

Project	Progress at April 2017	Date to G&A	Overall Assessment	Project	Progress at April 2017	Date to G&A	Overall Assessment
Risk/Priority Based Audit							
Contact Point - Agilisys	Complete	January 2017	Adequate/ Good	NEET Strategy	Complete	April 2017	Substantial/ Adequate
Business Service Centre	Deferred to 17/18	N/a	N/a	Community Learning and Skills	Complete	April 2017	Substantial/ Good
Total Facilities Management – Contract Management Follow-up	Complete	April 2017	Limited/ Good	Attendance and Inclusion	Deferred	N/a	N/a
Total Facilities Management – Property Service Desk Follow-up	Complete	January 2017	Limited/ Uncertain	Schools Improvement Team	Complete	January 2017	Substantial/ Good
Property – Disposal of Assets	Complete	April 2017	Adequate/ Adequate	Elective Home Education	Draft Report		
Public Health Governance Follow-up inc Clinical Governance Framework	In progress			Safeguarding – Education and Early Years	Complete	January 2017	Adequate/ Adequate
Grant Administration Follow-up inc. Member Grant Scheme and Grant for VCS	Deferred to 17/18	N/a	N/a	Education Commissioning – Capital Plan	Complete	April 2017	High/Good
Property LATCo – GEN2 Relationship Management	Planning			School Financial Services – System of Audit	In progress		
Legal Services LATCo	Deferred to 17/18	N/a	N/a	Schools –Themed Review	Draft Report		
Knet and Website	Deferred to 17/18	N/a	N/a	EduKent	Cancelled	N/a	N/a
Developer Contributions	Deferred to 17/18	N/a	N/a	Educational Trust – Watching Brief	Ongoing		
Independent Living Fund	Cancelled	N/a	N/a	New EY Data Systems – Watching Brief	Ongoing		
Social Care Placements – Central Purchasing Team	Draft Report			Troubled Families	In Progress and ongoing	Reported to each relevant meeting	
Support Directory - Signposting	Deferred	N/a	N/a	Road Safety/ Crash Remedial Measures	Complete	January 2017	Limited/ Good

Project	Progress at April 2017	Date to G&A	Overall Assessment	Project	Progress at April 2017	Date to G&A	Overall Assessment
Dementia Care	Deferred	N/a	N/a	LED Street Lighting	In progress		
ICES Contract	Complete	January 2017	Substantial/ Good	Highways Repairs Process and Outcomes	Deferred to 2017/18	N/a	N/a
Disabled Services Post Transfer	Ongoing			National Driver Offender Retraining Scheme	Complete	April 2017	Adequate/ Good
Carers' Assessments	Complete	January 2017	Adequate/ Adequate	Public Rights of Way	Complete	October 2016	Adequate/ Adequate
Better Care Fund – Health and Social Care Integration	Planning			Contract for Bulky Waste	Deferred to 2017/18	N/a	N/a
Foster Care Follow-up	Deferred to 2017/18	N/a	N/a	Regional Growth Fund	In progress		
Unaccompanied Asylum Seeking Children	Complete	October 2016	Adequate/ Good	Concessionary Fares	Deferred to 2017/18	N/a	N/a
Adoption	In progress/ On hold			Commercial Services – Household Waste and Recycling Centre Contract	Deferred to 2017/18	N/a	N/a
No Recourse to Public Funds	Deferred to 2017/18	N/a	N/a	Discovery Park Technology	Merged with Regional Growth Fund Audit		
0-25 Post Implementation Reviews	Merged with Transformation and Change – Delivery of Savings and Other Outcomes			BDUK Phase 2	Ongoing		
Step-Down to Early Help	Merged with Early Help – Managing Step-Up to Specialist Children's Services			Coroners Service	Cancelled	n/a	n/a
Early Help – Managing Step-Up to Specialist Children's Services	Complete	October 2016	Substantial/ Good	Integrated Community Safety Function	Planning		
Supervisions Follow-up	Complete	April 2017	Adequate/ Good	Kent Resilience Team Phase 3 and Follow-up	Complete	April 2017	Adequate/ Adequate
Pupil Referral Units	Deferred	N/a	N/a				

Project	Progress at April 2017	Date to G&A	Overall Assessment	Project	Progress at April 2017	Date to G&A	Overall Assessment
ICT Audit							
Software Lifecycle Management	Complete	January 2017	Adequate/ Good	ICT Strategy and Governance	Deferred to 2017/18	N/a	N/a
SWIFT – Adult SC ISO27001 Certification	Complete	October 2016	Adequate/ Good	Cyber Security and Social Engineering	In Progress		
Spydus – Application Review	Complete	January 2017	Adequate/ Good	ICT Project Management	Cancelled	N/a	N/a
Disaster Recovery Planning: Follow-up	Complete	October 2016	Adequate	IT Asset Management	Complete	April 2017	Substantial/ Good
PCI DSS	Draft Report			Network Management	Merged with Cyber Security and Social Engineering		

Annex 3 - Internal Audit Assurance Levels

Opinion definitions

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: 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 – 11 April 2017

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 9 months to 31 December 2016 and developments in the period since up to the date of this report.

BACKGROUND

2. The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that Authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end). This report provides an additional quarterly update.
3. The Council's Treasury Management Strategy for 2016-17 was approved by full Council on 11 February 2016
4. The Council 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 February 2017 report is attached in Appendix 1.

INVESTMENT ACTIVITY

External context

6. The main external issue which has impacted on KCC's investment activity was the cut in the base rate to 0.25%. The cut led to reductions in the rates offered by banks for deposits and available from money market funds. Rates for very short-dated periods (overnight – 1 month) have fallen to between 0.1% and 0.2% while Debt Management Account Deposit Facility (DMADF) rates have fallen to 0.10%. Recently the yields on T-Bills have been slightly negative.

7. After recovering from an initial sharp drop in Quarter 2, equity markets appear to have continued their rally. The Council has had some exposure to equity markets, through its investment in the Pyrford Global Total Return Sterling Fund, which performed well in the 9 months.
8. Inflation has continued to rise and at the end of December the Consumer Price Index (CPI) had risen to 1.6%. The Bank of England forecasts a rise closer to the Bank's 2% target in the first half of 2017, as previous rises in commodity prices and the depreciation in sterling drive up imported material costs for companies.
9. Since the initial Brexit reaction UK Commercial Property values have continued the recovery trend. It is widely forecast however that UK Commercial Property returns in the next few years will be driven by income returns with consensus returns in the range 5-7% per annum over the next five years. KCC has exposure to this market through its investment in the CCLA LAMIT Property Fund.
10. The impact on KCC's counterparties and investments of the uncertain economic environment is being carefully monitored by officers and the Council's treasury advisors. Arlingclose's credit advice remains cautious however duration limits for major UK banks and building societies were unchanged with Standard Chartered remaining suspended from the list.

Investment activity 2016 - 17

11. The Council's average investment balances to date have amounted to £330m, representing income received in advance of expenditure plus balances and reserves held.
12. 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.
13. Security of capital has remained the Authority's main investment objective. Given the increasing risk and continued low returns from short-term unsecured bank investments, the Council's aim has been to further diversify into more secure and/or higher yielding asset classes as set out in its Treasury Management Strategy Statement for 2016 - 17.
14. In October KCC invested £10m in the Aberdeen cash plus fund and in late December made an investment of £25m in the Fidelity Multi Asset Income Fund which invests in a mix of asset classes including equities, fixed income, cash and property.
15. Internally managed investments have achieved an average return of 0.75% over the 9 month period.

Statement of investments

16. A statement of investments as at 3 March 2017 is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

BORROWING

17. In June the Barclays LOBOs, totalling £281.8m were converted into fixed rate loans and is a highly welcome move by the bank.
18. Since the start of the current financial year the Council has received £7.5m of the funding agreed for the County's street lighting replacement project and expects to receive a total of £15.2m in 2016-17 (£1.3m still to be advanced by Salix and £6.4m from Green Investment Bank). KCC has repaid £32.2m of maturing loan principal in 2016/17.
19. As a result of the new borrowing and repayment of maturing loans, the average interest rate payable on the Council's debt portfolio reduced to 5.157%.
20. Affordability and the "cost of carry" remain important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would 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, the Council has determined it is more cost effective in the short-term to use internal resources instead.
21. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The Council's Treasury Advisor, Arlingclose, assists it with this 'cost of carry' and breakeven analysis.

RECOMMENDATION

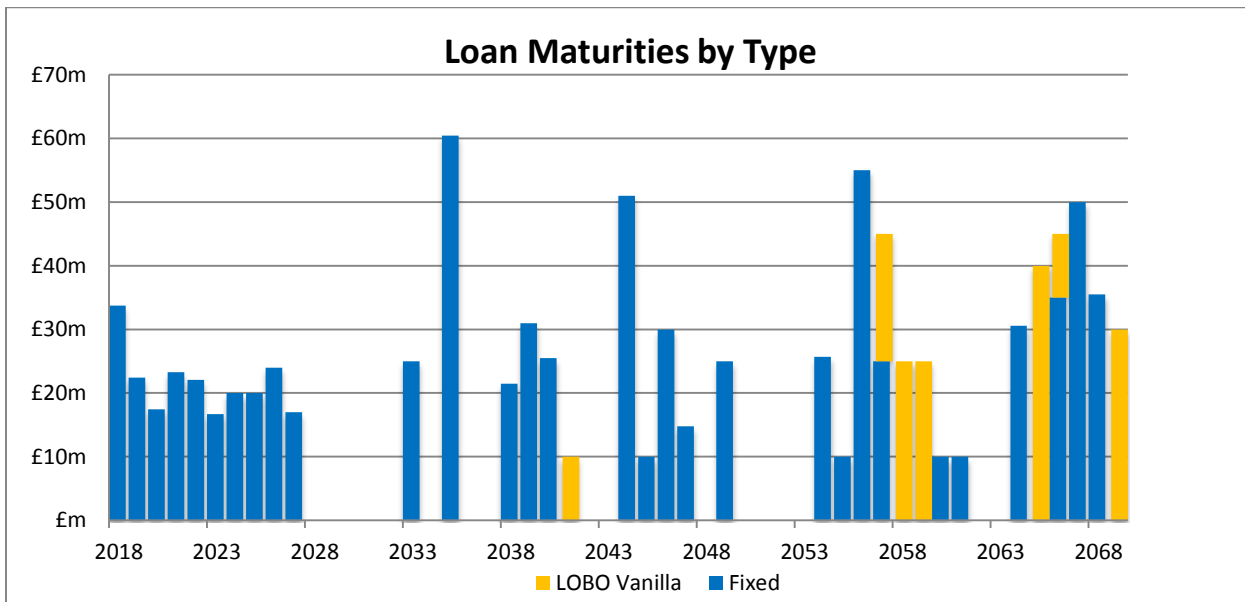
22. Members are asked to note this report for assurance.

Alison Mings
Treasury and Investments Manager
Ext: 03000 416488

Treasury Management Report for the month of February 2017

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 February was £957.79m.

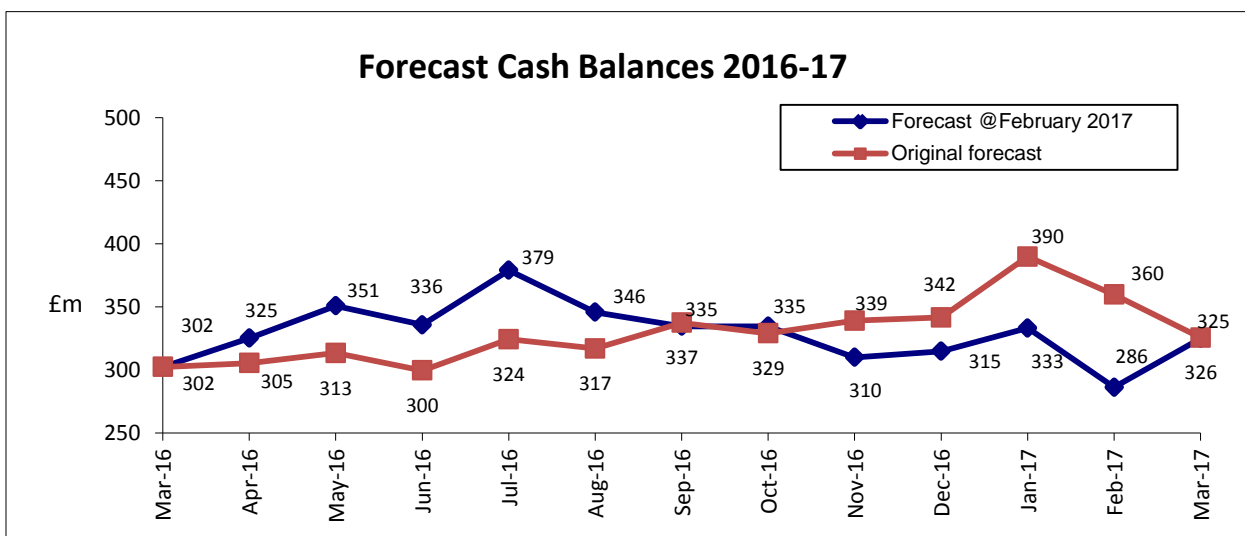


Total external debt managed by KCC includes £37.0m pre-LGR debt managed by KCC on behalf of Medway Council. Also included is pre-1990 debt managed on behalf of Further Education Funding Council (£0.54m), Magistrates Courts (£0.371m).

2. Investments

2.1 Cash Balances

During February the total value of cash under management fell by approximately £47m to £286.2m, £73m below the original forecast due to timing of cashflows. At this time it is anticipated, based on information available, that the actual balance at 31 March will be in line with forecast.



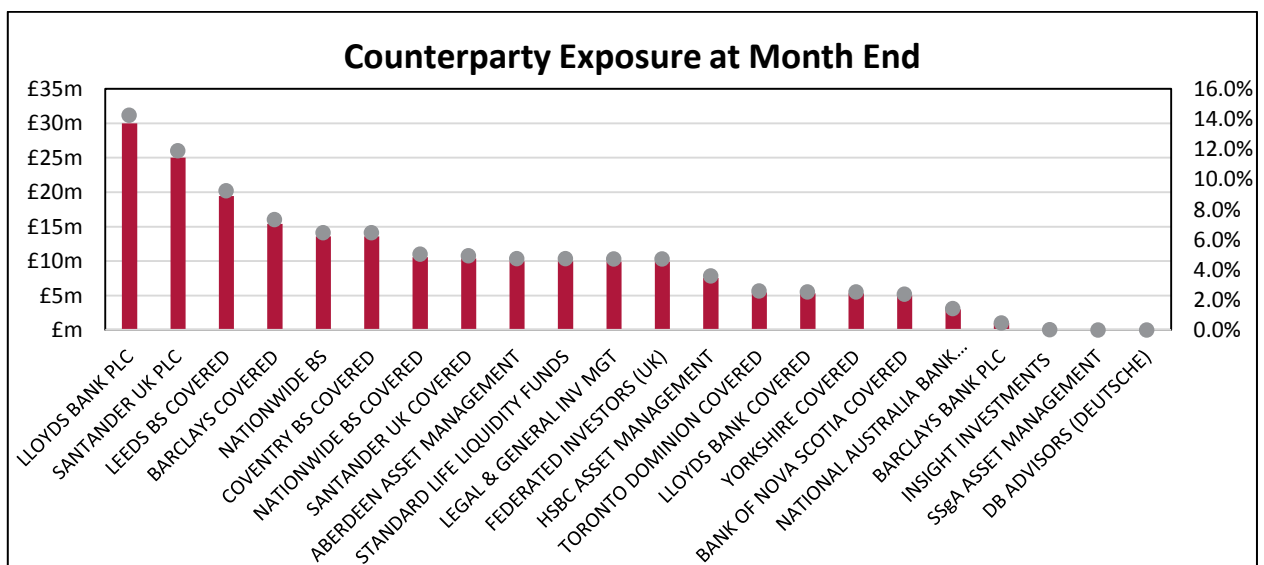
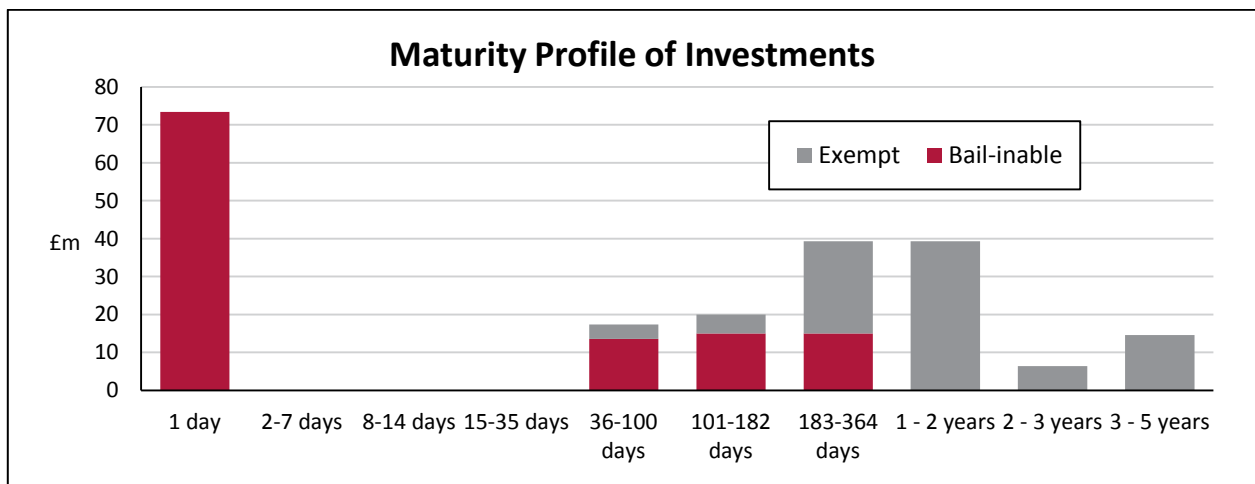
2.2 Type of investment at month end

Type of Investment	Total	
	£m	%
Call Account	1.00	0.35
Money Market Fund	47.39	16.78
Notice Account	25.00	8.85
Fixed Deposit	43.6	15.44
Covered Bond	93.39	33.07
ISK held in Escrow	3.28	1.16
Icelandic Recoveries Outstanding	0.51	0.18
Internally managed cash	214.17	75.84
External Investments	56.07	19.85
Cashplus Fund	10.03	3.55
Equity	2.14	0.76
Total	282.41	100.00

2.3 Internally managed cash

2.3.1 The rate of return on investments held at month end is 0.77% vs the target return 7 day LIBID of 0.1147%.

2.3.2 Investment maturity profile and counterparty exposure.



2.3.3 Credit Score matrix

	Credit Rating	Credit Risk Score
Value Weighted Average	AA	3.24
Time Weighted Average	AAA	1.47

3. External Investments

	Book cost £000	Market Value at 28 Feb 2017 £000	12 months return to 28 Feb 2017	
			Income	Total
CCLA Property Fund	25,000	25,256	4.56%	2.36%
Pyrford Global Total Return Sterling Fund	5,000	5,077	9.18%	8.80%
Fidelity Multi Asset Income Fund	25,000	25,739	0.27%	3.23%

4. Financing Items

The forecast underspend has increased to -£1.1m on the net debt charges budget, mainly due to lower than budgeted interest costs and higher interest receipts and dividends, a reduction in bank charges following the recent retendering for banking services and savings on brokerage fees, as we are not looking to take out any new borrowing this financial year.

Alison Mings
14 March 2017

Investments as at 10 March 2017

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate
Same Day Call Deposit	Barclays Bank	£1,000,000	n/a	0.35%
	Total Barclays	£1,000,000		
Fixed Deposit	Lloyds Bank	£5,000,000	21/08/2017	1.00%
Fixed Deposit	Lloyds Bank	£5,000,000	29/09/2017	1.00%
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	08/02/2018	0.90%
Fixed Deposit	Lloyds Bank	£5,000,000	05/09/2017	1.00%
	Total Lloyds Group	£30,000,000		
180 Day Call Notice Account	Santander UK	£25,000,000	n/a	0.90%
	Total Santander	£25,000,000		
Total UK Bank Deposits		£56,000,000		
Fixed Deposit	Nationwide Building Society	£3,600,000	19/04/2017	0.42%
Fixed Deposit	Nationwide Building Society	£10,000,000	24/04/2017	0.43%
	Total UK Building Society Deposits	£13,600,000		
Money Market Fund	Aberdeen Sterling Liquidity Fund	£9,971,290	n/a	0.23% (variable)
Money Market Fund	Deutsche Managed Sterling Fund	£4,727	n/a	0.21% (variable)
Money Market Fund	Federated (PR) Short-term GBP Prime Fund	£9,928,939	n/a	0.22% (variable)
Money Market Fund	HSBC Global Liquidity Fund	£7,549,048	n/a	0.22% (variable)
Money Market Fund	Insight Sterling Liquidity Fund	£29,251	n/a	0.21% (variable)
Money Market Fund	LGIM Liquidity Fund	£9,931,938	n/a	0.33% (variable)
Money Market Fund	SSgA GBP Liquidity Fund	£6,138	n/a	0.23% (variable)
Money Market Fund	SSgA GBP Liquidity Fund	£9,967,400	n/a	0.26% (variable)
	Total Money Market Funds	£47,388,731		

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

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Net Yield	Maturity Date
Floating Rate Covered Bond	Abbey National Treasury	£2,408,488	0.776%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£1,359,997	0.716%	05/04/2017
Floating Rate Covered Bond	Abbey National Treasury	£3,002,032	0.787%	29/05/2018
Fixed Rate Covered Bond	Bank Of Nova Scotia	£4,984,225	0.813%	14/09/2021
Floating Rate Covered Bond	Barclays Bank	£5,002,296	0.693%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£3,001,467	0.685%	15/09/2017
Floating Rate Covered Bond	Barclays Bank	£5,001,520	0.721%	12/02/2018
Floating Rate Covered Bond	Barclays Bank	£2,396,603	0.781%	12/02/2018
Fixed Rate Covered Bond	Coventry Building Society	£3,157,053	1.931%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£5,282,513	1.726%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£2,121,260	1.524%	19/04/2018
Floating Rate Covered Bond	Coventry Building Society	£3,006,731	0.877%	17/03/2020
Floating Rate Covered Bond	Leeds Building Society	£2,501,236	0.784%	09/02/2018
Floating Rate Covered Bond	Leeds Building Society	£2,501,255	0.784%	09/02/2018
Fixed Rate Covered Bond	Leeds Building Society	£2,085,960	2.029%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£1,558,096	1.192%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£5,771,641	0.623%	17/12/2018
Floating Rate Covered Bond	Leeds Building Society	£5,000,000	0.967%	01/10/2019
Floating Rate Covered Bond	Lloyds	£3,901,156	0.721%	19/01/2018
Floating Rate Covered Bond	Lloyds	£1,403,435	0.758%	18/07/2019
Fixed Rate Covered Bond	National Australia Bank	£3,003,113	1.104%	10/11/2021
Floating Rate Covered Bond	Nationwide Building Society	£1,899,999	0.769%	17/07/2017

Floating Rate Covered Bond	Nationwide Building Society	£1,000,245	0.719%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£2,100,617	0.709%	17/07/2017
Floating Rate Covered Bond	Nationwide Building Society	£3,429,266	0.740%	27/04/2018
Floating Rate Covered Bond	Nationwide Building Society	£2,147,740	0.771%	27/04/2018
Fixed Rate Covered Bond	Santander UK PLC	£3,615,957	0.649%	14/04/2021
Floating Rate Covered Bond	Toronto Dominion	£5,455,852	1.016%	01/02/2019
Fixed Rate Covered Bond	Yorkshire Building Society	£2,107,752	1.976%	12/04/2018
Fixed Rate Covered Bond	Yorkshire Building Society	£3,187,918	1.545%	12/04/2018
	Total Bonds	£93,395,422		

Total Internally managed investments	£214,169,134
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2. Externally Managed Investments

Investment Fund / Equity	Market Value at 28 February 2017	12 months return to 28 February 2017	
		Income	Total
CCLA LAMIT Property Fund	£25,256,038	4.56%	2.36%
Pyrford Global Total Return Fund	£5,077,303	9.18%	8.80%
Fidelity Multi Asset Income Fund	25,739,175	0.27%	3.23%
Aberdeen Ultra Short Duration Sterling Fund	£10,027,103	-	0.27%
Kent PFI (Holdings) Ltd	£2,135,741		

Total External Investments	£68,235,360
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3. Total Investments

Total Investments	£282,404,495
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By: Deputy Leader and Cabinet Member for Finance & Procurement – John Simmonds
Corporate Director of Finance – Andy Wood

To: Governance and Audit Committee – 11 April 2017

Subject: Revised Accounting Policies

Classification: Unrestricted

Summary: This report asks Members to approve the adoption of 'Telling the Story' which is a change in presentation to the financial statements and by default a change of accounting policy.

FOR DECISION

1. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".
2. This year, amendments and revisions are needed in respect of the adoption of 'Telling the Story'.
 - 2.1 'Telling the Story' is a change of presentation to the Comprehensive Income and Expenditure Statement (CIES) and moves away from aligning with Service Reporting Code of Practice and will be based on the Council's organisational structure. The Movement in Reserves Statement (MIRS) now has a streamlined presentation. The relevant accounting standards will still have to be applied.
 - 2.3 A new funding analysis note is to be introduced which will explain and show the following:
 - Provide a directorate analysis based on how the Council operates
 - Reconciles net expenditure chargeable to the general fund
 - Brings together the funding and accounting basis by service
 - 2.4 As the CIES is a main statement we are required to complete a restatement of the 2015-16 accounts. The impact of the change is purely presentational and there is no change to the surplus/deficit on provision of service reported previously.
 - 2.5 The CIES and MIRS presentation change is deemed as an accounting policy change, however there are no changes to accounting treatment.

2.6 No other changes to our accounting policies are recommended.

3. **Recommendation**

Members are asked to approve the additions and amendments in respect of 'Telling the Story' as shown in section 2 of this report.

Cath Head
Head of Finance Operations
Ext: 416934

Emma Feakins
Chief Accountant
Ext: 416082

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

To: Governance and Audit Committee – 11 April 2017

Subject: Updated Financial Regulations

Classification: Unrestricted

Summary: This report summarises and recommends updated financial regulations for approval by the County Council.

FOR APPROVAL

1. Introduction

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

2. Main Amendments

- 2.1 The process for conducting this review included:
 - Looking at the Constitution to ensure the regulations comply with the Constitution;
 - Addressing concerns/gaps raised by finance staff;
 - Ensuring other relevant procedures/publications are still relevant and available on Knet.
- 2.2 The amendments made to the regulations can be seen in detail at Appendix A, as they are presented showing all tracked changes.
- 2.3 The main areas of change to highlight are:
 - Regulation relating to Revenue Budgeting – Budget Format has been revised. (Ref. Section A.8)
 - Regulation relating to Capital Budget Monitoring has been revised. (Ref. Section B.15)

- Regulation relating to Assets – Security of Assets has been revised. (Ref. Section C.14)
- The regulation relating to Corporate Directors being responsible for ensuring all undisputed invoices are settled within a timeframe from receipt of the invoices has been amended from 20 days to 30 days. (Ref. Section D.10 ix)

3. **Recommendation**

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

Emma Feakins
Chief Accountant
Ext: 416082

KENT COUNTY COUNCIL

FINANCIAL REGULATIONS

Amended by the Council:

22 July 2010

23 May 2013

21 May 2015

19 May 2016

June 2016

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Financial Regulations:	
A – Financial Planning	11
B – Financial Management	17
C – Risk management and Control of Resources	23
D – Systems and Procedures	30
E – External Arrangements	36

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

A. Financial Planning

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

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

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

B. Financial Management

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

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

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

C. Risk Management and Control of Resources

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

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

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

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

D. Systems and Procedures

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

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

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

E. External Arrangements

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

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

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

OVERALL FINANCIAL RESPONSIBILITIES

Introduction

2.1 Financial management covers all financial accountabilities in relation to the running of the Council including the policy framework and budget. It is not possible to draft regulations or rules that cover every eventuality or circumstance. Consequently, the principles of sound financial management, proper exercise of responsibility, and accountability, as set out in Financial Regulations, should be applied in all circumstances, even where any particular circumstance is not specifically referred to.

2.2 **The full Council** is responsible for:

- i. setting the policy framework;
- ii. approving and monitoring compliance with the Council's overall framework of accountability and control as set out in the Constitution;
- iii. directly and through the Scrutiny Committee, for monitoring compliance with agreed policy, including revenue and capital budgets;
- iv. approving procedures for recording and reporting decisions taken. This includes key and other decisions taken or delegated by the Leader and those decisions taken by the Council and its Committees or delegated by them to officers. These delegations and details of who has responsibility for which decisions are set out in the Constitution;
- v. agreeing the annual budget and Council Tax;
- vi. determining and keeping under review how much money the Council can afford to borrow for capital expenditure;
- vii. approving the annual treasury management strategy;
- viii. setting and revising the prudential indicators for capital finance and borrowing;
- ix. approving the policy on Minimum Revenue Provision (MRP) as set out in the annual MRP statement;
- x. setting the limits for virement or other budget changes through the Financial Regulations and decision making procedure rules;
- xi. setting the limits defining key financial decisions;
- xii. determining any expenditure proposed by the Leader or the Cabinet that is outside the limits referred to in v above;
- xiii. Approving the Contracts and Tenders Standing Orders.

2.3 **The Leader** is responsible for:

- i. proposing the Medium Term Financial Plan, Budget, Council Tax and prudential indicators to the Council;
- ii. approving revenue, capital strategies;
- iii. determining which executive functions are exercised by him/herself, the Cabinet collectively, other individual members of the Cabinet or officers;
- iv. ensuring that all executive decisions are taken in accordance with the Council's agreed principles of decision making including due consultation and the taking of professional advice from officers.

2.4 **Individual Cabinet Members** are responsible, within their allocated responsibility area and approved budget for:

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

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

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

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

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

- i. after consulting with the Head of Paid Service and the Corporate Director of Finance ~~and Procurement~~, reporting to the full Council (or to the Leader or Cabinet in relation to an executive function) if he/she considers that any proposal, decision or omission would give, is likely to give, or has given, rise to a contravention of any enactment or rule of law, or any maladministration or injustice. Such a report has the effect of stopping the proposal or decision being implemented until the report has been considered;
- ii. ensuring that records of executive decisions, including the reasons for those decisions and relevant officer reports and background papers, are made publicly available;
- iii. advising whether decisions of the executive are in accordance with the Budget and Policy Framework. Actions that may be 'contrary to the Budget' include:
 - initiating a new policy for which no budget exists;
 - committing expenditure in future years above the approved budgeted level;
 - Effecting intra- and inter-portfolio transfers above virement limits;
 - causing the total expenditure financed from council tax, grants and corporately held reserves to increase beyond that provided for in the approved budget;
- iv. providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues to all Members.

2.8 The Head of Paid Service is responsible for:

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

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

- i. Section 151 of the Local Government Act 1972
- ii. Local Government Finance Acts 1988, 1992 and 2012
- iii. The Local Government and Housing Act 1989
- iv. The Local Government Acts 2000 and 2003
- v. The Accounts and Audit Regulations 2015
- vi. The Local Government Pension Scheme Regulations (Management and Investment of Funds) 2009
- vii. The Local Government Pension Scheme Regulations 2013

viii. The Local Authorities Goods and Services Acts 1970 and 1988.

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

- i. after consulting with the Head of Paid Service and the Monitoring Officer, reporting to the full Council (or to the Leader or Cabinet in relation to an Executive function) and the Council's external auditor if he/she considers that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency, or if the Council is about to enter an item of account unlawfully;
- ii. the proper administration of the financial affairs of the Council;
- iii. maintaining an adequate and effective system of internal audit;
- iv. contributing to the corporate management of the Council, in particular through the provision of professional financial advice;
- v. providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and Budget and Policy Framework issues to all Members and supporting and advising Members and officers in their respective roles;
- vi. providing financial information about the Council to Members, the media, members of the public and the community.

2.11 And in particular is responsible for:

- i. setting financial management standards, including financial procedures, and monitoring their compliance;
- ii. advising on the corporate financial position and on the key financial controls necessary to secure sound financial and risk management;
- iii. providing financial information to support the proper financial planning of the authority, to inform policy development, and to assist Members and officers in undertaking their financial responsibilities;
- iv. preparing the revenue budget, and reporting to the Council, when considering the budget and Council Tax, on the robustness of the estimates and the adequacy of reserves;
- v. monitoring income and expenditure against the budget and taking action if overspends of expenditure or shortfalls in income emerge;
- vi. preparing the capital programme and ensuring effective forward planning and sound financial management in its compilation;
- vii. producing prudential indicators, reporting them to the Leader and the Council for consideration and establishing procedures to monitor and report on performance in relation to these indicators;
- viii. treasury management, the management of the Council's banking arrangements and monitoring the Council's cash flow;
- ix. issuing advice and guidance to underpin the Financial Regulations that Members, officers and others acting on behalf of the Council are required to follow;
- x. ensuring that effective arrangements are in place for payments of creditors, income collection, administration of pensions, risk management and insurances and the production of financial management information;
- xi. ensuring that any partnership arrangements (or other innovative structures for service delivery) are underpinned by clear and well documented internal financial controls;
- xii. advising on anti-fraud and anti-corruption strategies and measures;

- xiii. contributing to cross-authority issues and to the development of the Council;
- xiv. ensuring that statutory and other accounts and associated claims and returns in respect of grants are prepared;
- xv. ensuring that due consideration is given to the Council's wellbeing, correct financial management and security of the Council's assets when establishing a company or partnership arrangement; **LINK**
- xvi. ensuring that the MRP calculation is prudent;
- xvii. taking ownership of the Council's corporate financial system;
- xviii. supporting the Superannuation Fund Committee in relation to the control and investment of the Kent Pension Fund. **LINK**

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

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

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

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- xii. putting in place a scheme of financial delegation setting out arrangements for the discharge of the Head of Paid Services and Corporate Directors responsibilities contained within Financial Regulations;
 - xiii. arrangements for internal control and for inclusion in the annual accounts of the statement of internal control;
 - xiv. ensuring that the Bribery Act Policy is implemented, promoted and complied with.

Personal Responsibilities

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

FINANCIAL REGULATION A – FINANCIAL PLANNING

Introduction

- A.1 The full Council is responsible for agreeing the Budget, which will be proposed by the Leader. In terms of financial planning, the key elements are:
- i. the Medium Term Financial Plan
 - ii. A commissioning framework for Kent County Council: Delivering better outcomes for Kent residents through improved commissioning
 - iii. ~~Supporting Independence & Opportunity: Corporate Outcomes Framework 2015-2019~~ Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement 2015-2020
 - iv. Public Service Agreement
 - v. Annual Performance Plans
 - vi. the Revenue Strategy and Budget
 - vii. the Capital Strategy and Programme
 - viii. the Treasury Management Strategy
 - ix. the Risk Management Strategy

Medium term budget and financial strategy

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

Performance Planning

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

- iii. ensuring that Directorate service plans are clearly aligned with budgets, to enable the delivery of service priorities;
- iv. ensuring that targets identified within performance plans are built into local work programmes and targets for management and service delivery staff.

The Kent Pension Fund

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

Revenue budgeting

Budget format

- A.7 The general format of the Budget will be proposed to the Leader by Corporate Director of Finance ~~and Procurement~~. The draft Budget should include allocations to different services and projects, proposed sources of funding, proposed taxation levels and contingency funds.
- A.8 Guidelines on budget preparation are issued to Cabinet Members, Corporate Directors by the Leader on the recommendation of the Corporate Director of Finance ~~and Procurement~~. The guidelines will take account of:
 - i. legal requirements
 - ii. the Medium Term Financial Plan
 - iii. A commissioning framework for Kent County Council: Delivering better outcomes for Kent residents through improved commissioning
 - iv. ~~Supporting Independence & Opportunity: Corporate Outcomes Framework 2015-2019~~ Increasing Opportunities, Improving Outcomes: Kent County Council's Strategic Statement 2015-2020
 - v. Public Service Agreement
 - vi. available resources
 - vii. spending pressures
 - viii. relevant Government guidelines
 - ix. other internal policy documents
 - x. cross cutting issues (where relevant).

Budget preparation

- A.9 The Leader is responsible for developing and proposing to the County Council the general content of the revenue budget in consultation with the Corporate Director of Finance ~~and Procurement~~.

A.10 Budgets will be presented in both a Service Analysis and Directorate format. The Directorate format will align with the structure of the Council.

A.11 The Head of Paid Services and the Corporate Director of Finance ~~and Procurement~~ are responsible for ensuring that a revenue budget is prepared on an annual basis for consideration by the Leader and Cabinet before submission to the Full Council, in accordance with the Budget Procedure Rules, as set out in the Constitution.

A.12 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. ensuring that a process is in place to identify potential pressures on the budget;
- ii. reporting to the Full Council, when the Budget and Council Tax is considered, on the robustness of the estimates and the adequacy of reserves provided for.

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

A.14 The Corporate Directors are responsible for ensuring that budget estimates reflect agreed service plans, are submitted to the relevant Cabinet Member and the Leader and that these estimates are realistic and prepared in line with guidance issued by the Leader.

Resource allocation

A.15 The Leader in consultation with the Corporate Director of Finance ~~and Procurement~~ is responsible for developing and maintaining a resource allocation process that ensures due consideration of the Council's Policy Framework.

Budget Amendment

A.16 Approved revenue budgets may be amended during a financial year in accordance with the virement regulations in B6-B9.

A.17 The Corporate Directors may make changes to revenue budgets resulting from additional grant or other external income receivable during a financial year. Such changes must be notified to the Corporate Director of Finance ~~and Procurement~~.

A.18 The Corporate Directors may make technical adjustments to revenue budgets during a financial year resulting from changes to grant rules or realignment of resources to approved business plans. Such changes must be notified to the Corporate Director of Finance ~~and Procurement~~.

Capital Programme and capital budgeting

A.19 The Leader is responsible for developing and proposing the capital programme to the County Council in consultation with the Corporate Director of Finance ~~and Procurement~~.

- A.20 The Head of Paid Service and Corporate Director of Finance ~~and Procurement~~ are responsible for ensuring that a medium term capital programme and financing plan is prepared on an annual basis for consideration by the Leader before submission to the Full Council in accordance with the budget procedure rules as set out in the Constitution.
- A.21 The Corporate Director of Finance ~~and Procurement~~ is responsible for advising on prudential indicators required to be set in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities and for ensuring that all matters required to be taken into account in setting prudential indicators are reported to the Leader and the Council.
- A.22 The Corporate Director of Finance ~~and Procurement~~ is responsible for:
- i. setting up procedures under which capital expenditure proposals are evaluated and appraised to ensure that value for money is being achieved, are consistent with service and asset management objectives and are achievable;
 - ii. setting up procedures for corporate monitoring of external sources of capital funding;
 - iii. ensuring that expenditure treated as capital expenditure by the County Council is in accordance with best accounting practice.
- A.23 The Corporate Directors are responsible for:
- i. ensuring that capital proposals reflect agreed service plans, are prepared in line with guidance issued, are realistic, that necessary business case development and option appraisals have been carried out and any risks identified. Any impact of capital expenditure proposals on service running costs must be identified and included in revenue budget estimates or forecasts;
 - ii. consulting with the Corporate Director of Finance ~~and Procurement~~ the relevant Cabinet Member and the Deputy Leader and Cabinet Member for Finance and Procurement where it is proposed to bid for funding from external sources to support capital expenditure;
 - iii. ensuring that the Capital Process and Procedures are followed. **LINK** This includes ensuring that projects only proceed when they have received the necessary Project Advisory Group (PAG) approval and confirmation that any external funding is secured. For schemes and headings where the total cost is estimated to be £1m or more, or the scheme is reliant on borrowing or capital receipt funding this consent must be obtained from the Leader following procedures issued by the Corporate Director of Finance ~~and Procurement~~. The Leader may take the decision himself/herself or specifically delegate the decision to Cabinet or the relevant Cabinet Member. For schemes where the total cost is estimated to be less than £1m, and require no capital receipt or borrowing, consent must be obtained from the relevant Cabinet Member.
 - iv. ensuring that any new capital expenditure proposals which would require an increment to the total three year capital programme in order to proceed, regardless of funding, are agreed with the Corporate Director of Finance ~~and Procurement~~ and are submitted to the Leader for consideration via the PAG process;
 - v. ensuring that, in addition to the PAG process, appropriate approval is sought where relevant from the Leader, the Cabinet or an authorised Cabinet Member in accordance with the Constitution.

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

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

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

Maintenance of reserves & provisions

- A.24 The Corporate Director of Finance ~~and Procurement~~ is responsible for:
 - i. advising the Leader and the Council on prudent levels of reserves for the Authority when the annual budget is being considered having regard to assessment of the financial risks facing the Authority;
 - ii. ensuring that reserves are not only adequate but also necessary;
 - iii. ensuring that there are clear protocols for the establishment and use of each earmarked reserve. Reserves should not be held without a clear purpose or without a planned profile of spend and contributions, procedures for the reserves managements and control, and a process and timescale for review of the reserve to ensure continuing relevance and adequacy;
 - iv. ensuring that all renewals reserves are supported by a plan of budgeted contributions, based on an asset renewal plan that links to the fixed asset register;
 - v. ensuring that no money is transferred into reserves after 31st December each financial year without prior agreement.
- A.25 The Corporate Director of Finance ~~and Procurement~~ is responsible for ensuring that provisions are set up for any liabilities of uncertain timing or amount that have been incurred and are required to be recognised when:
 - i. the Council has a present obligation (legal or constructive) as a result of a past event
 - ii. it is probable that a transfer of economic benefits will be required to settle the obligation, and
 - iii. a reliable estimate can be made of the amount of the obligation.
 - iv. If the Council does not yet have an obligation / or expects to have a future obligation as a result of something that has not yet happened, then either a reserve should be set up and the regulations in A.23 above apply or a contingent liability should be set up and the regulations in A.25 below apply.

A.26 The Corporate Director of Finance ~~and Procurement~~ is responsible for ensuring that contingent liabilities are noted in the accounts for probable liabilities where a reliable estimate cannot be made and are recognised when:

- i. the Council has a present obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council; or
- ii. the Council has a present obligation that arises from past events but is not recognised because:
 - a. it is not probable that a transfer of economic benefits will be required to settle the obligation, or
 - b. the amount of obligation cannot be measured with sufficient reliability.
- iii. If it becomes probable that a transfer of economic benefits will be required to settle the obligation then the regulations set out in A.24 will apply.

Key decisions

A.27 Cabinet Members are responsible, within their allocated responsibility area and approved budget, for taking decisions as agreed by the Leader of the County Council.

A.28 All decisions must be processed in accordance with the decision making and reporting framework set out in the Constitution and in taking decisions Cabinet Members must comply with the County Council's Financial Regulations.

FINANCIAL REGULATION B - FINANCIAL MANAGEMENT

Introduction

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

Revenue Budget Monitoring and Control

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

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

Financial Implications of Reports

- B.4 The Corporate Director of Finance ~~and Procurement~~ is responsible for:
 - i. monitoring the quality of the financial implications information included in reports by the Corporate Directors;
 - ii. providing financial implications where there are corporate implications and especially when corporate resources (revenue or capital) are required.
- B.5 The Corporate Directors are responsible for:
 - i. ensuring that financial implications in either the current or future years are identified within Directorates for all relevant reports and that such financial implications are agreed by or on behalf of the nominated responsible professional finance officer (Section 151 Officer or Finance Business Partner)
 - ii. where reports impact on other Directorates or have implications for corporate resources, ensuring that the report includes the impacts or implications for all Directorates affected and that a copy of the report is submitted to the Corporate Director of Finance ~~and Procurement~~ or nominated representative for clearance;
 - iii. ensuring in all relevant circumstances, that financial implications referred to in reports are reflected in current budgetary provisions or the medium term financial plan.

Virement

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

a. Virement within a Portfolio:

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

b. Virement between portfolios:

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

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

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

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

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

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

Treatment of year-end balances

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

Capital Budget Monitoring

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

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

B.15 The Corporate Directors are responsible for:

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

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

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

Virement limits are cumulative, please refer to B9 for explanation

For the purpose of the amounts above, where transfers are a single transaction they must be effected as such and not effected as two or more smaller transactions.

Accounting policies

B.17 The Corporate Director of Finance ~~and Procurement~~ is responsible for selecting and notifying to the Corporate Directors accounting policies which comply with the current Accounting Code(s) of Practice, ensuring that such policies are applied consistently, and for ensuring that effective systems of internal control are in place that ensure that financial transactions are lawful.

B.18 The Corporate Directors are responsible for adhering to the accounting policies notified by the Corporate Director of Finance ~~and Procurement~~.

Accounting records and returns

B.19 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. determining the accounting records for the Authority including the Kent Pension Fund, its form of accounts and supporting accounting records;
- ii. ensuring that accounting records are maintained in accordance with proper practices and legislative requirements;
- iii. establishing arrangements for the compilation of all accounts and accounting records whether within the Finance Group or within other Directorates.

B.20 The Corporate Directors are responsible for:

- i. consulting with the Corporate Director of Finance ~~and Procurement~~ on the accounting procedures and records to be utilised within their Directorate;
- ii. ensuring the proper retention of accounting records in accordance with the requirements established by the Corporate Director of Finance ~~and Procurement~~, including the retention of prime financial documents i.e. invoices, delivery notes and purchase orders for the year they relate to plus a further 6 years. Invoices paid for by EU Grants must be identified and kept for 12 years; **LINK**
- iii. ensuring that all claims for funds including grants are made by the due date, are recorded in the central register, and in line with the 'corporate grant procedure'; **LINK**
- iv. maintaining adequate records to provide a management trail leading from the source of income/expenditure through to the accounting statements;
- v. providing information required for, or to ensure completion of, all statutory and other financial returns by the due dates;
- vi. complying with any compliance testing which the Corporate Director of Finance ~~and Procurement~~ requires in relation to the Directorate accounts;
- vii. operating control accounts as agreed by the Corporate Director of Finance ~~and Procurement~~, ensuring that these are regularly reconciled, and cleared as part of the regular monitoring procedures.

The annual statement of accounts

B.21 The Governance and Audit Committee is responsible for approving the annual statement of accounts of the Authority and the Pension Fund on behalf of the Council.

B.22 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. ensuring that the annual statement of accounts is prepared by the required statutory date in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: Based on International Financial Reporting

- Standards for the relevant year and that the accounts present a true and fair view of the financial position of the Council and its expenditure and income;
- ii. liaising with External Audit on the completion of the Statement of Accounts and the arrangements for the audit of these;
 - iii. ensuring that adequate documentation is available to support the Statement of Accounts. This will include copies of grant claims, reconciliations with financial ledgers and other records, and other working papers to demonstrate the derivation of data used;
 - iv. the preparation of the Pension Fund's Statement of Accounts in accordance with practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom.

B.23 The Corporate Directors are responsible for:

- i. complying with accounting guidance agreed with the Corporate Director of Finance ~~and Procurement~~;
- ii. supplying the Corporate Director of Finance ~~and Procurement~~ with information required to complete the Statement of Accounts;
- iii. producing the documentation required to support the Statement of Accounts;
- iv. ensuring that the Closedown Pack – Guidance for Managers is completed in accordance with the annual timetable agreed with the Corporate Director of Finance ~~and Procurement~~.

Contingent Liabilities

B.24 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. reviewing at least annually in consultation with Corporate Directors the existing contingent liabilities for inclusion as a note in the statement of accounts, to ensure they are still contingent and to ensure that adequate reserves exist to cover the potential liability if necessary;
- ii. taking steps wherever possible, in consultation with the Corporate Directors, to minimise the risk of contingent liabilities.

B.25 The Corporate Directors are responsible for:

- i. setting up procedures and processes to minimise the risk of creating contingent liabilities;
- ii. reviewing at least annually their service areas for contingent liabilities;
- iii. informing the Corporate Director of Finance ~~and Procurement~~ of any new contingent liabilities and of any changes in the circumstances of existing contingent liabilities.

FINANCIAL REGULATION C – RISK MANAGEMENT AND CONTROL OF RESOURCES

Introduction

C.1 It is essential that robust systems are developed and maintained for identifying and evaluating all significant strategic, operational and financial risks to the Authority on an integrated basis. This should include the proactive participation of all those associated with planning and delivering services.

Risk management and insurance

C.2 The Cabinet and the Governance and Audit Committee are jointly responsible for approving the Council's Risk Management Strategy, Policy and guidance and for reviewing the effectiveness of risk management.

C.3 The Corporate Director Strategic and Corporate Services is responsible for preparing the Authority's Risk Management Strategy and Policy and for promoting it throughout the Council. The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. advising the Leader, Deputy Leader and Cabinet Member for Finance and Procurement and Cabinet on proper insurance cover where appropriate;
- ii. effecting, in consultation with the Deputy Leader and Cabinet Member for Finance and Procurement, corporate insurance cover, through external insurance and internal funding;
- iii. establishing arrangements for the handling of all insurance claims, in consultation with other officers where necessary;
- iv. undertaking a review of requirements to support the annual renewal of insurance contracts;
- v. ensuring that internal insurance provisions are adequate to meet anticipated claims.

C.4 The Corporate Directors are responsible for:

- i. the identification and management of risk within their Directorate and for having in place monitoring processes for reviewing regularly the effectiveness of risk management arrangements.
- ii. complying with procedures agreed regarding the instigation, renewal, maintenance and amendment of the Council's insurance arrangements.

Internal control

C.5 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. monitoring the systems for risk management and systems of internal control. This will be monitored through an effective internal audit function.
- ii. reviewing systems of internal control at least annually and providing an opinion on internal control within the Council in order to advise the Head of Paid Service on an Annual Governance Statement to be included in the Statement of Accounts.

C.6 The Corporate Directors are responsible for:

- i. establishing sound arrangements for planning, appraising, authorising, monitoring and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their financial performance targets;
- ii. promoting compliance with Council Policy, Standing Orders, Financial Regulations, Codes of Conduct and any statutory requirements;
- iii. promoting an overall effective internal control system. Managerial Control Systems, including appropriate organisation structures, personnel arrangements and supervision, as well as Financial and Operational Control Systems and procedures, including physical safeguards of assets, segregation of duties, authorisation and approval procedures and information systems, should be documented and regularly reviewed;
- iv. providing assurances for the annual governance statement, that financial and operational control processes are in place to enable Directorates to achieve their objectives and manage significant risks.

Audit requirements

C.7 The Accounts and Audit Regulations 2015 require every local authority to maintain an adequate and effective internal audit of its accounting records and its system of internal control.

C.8 The Local Audit and Accountability Act 2014 (the Act) abolished the Audit Commission and requires relevant authorities to appoint their own local (external) auditors on the advice of an auditor panel. As an interim measure national 5-year contracts were awarded that expire in 2016 (subsequently amended to 2017), the requirement to appoint will apply once those contracts end and to meet the Act's deadline local auditors will need to be appointed by 31st December 2017. The code of audit practice and guidance for local audit are governed by section 5 of the Act.

C.9 The Council may, from time to time, be subject to inspection or investigation by external bodies such as H.M. Revenue and Customs who have statutory rights of access.

C.10 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. ensuring an effective internal audit function, through adequate resourcing and coverage properly planned and determined through assessment of risk and consultation with management;
- ii. ensuring that effective procedures are in place to investigate promptly any fraud or irregularity;
- iii. ensuring that external auditors are given access at all reasonable times to premises, personnel, documents and assets that the external auditors consider necessary for the purposes of their work;
- iv. ensuring there is effective liaison between external and internal audit;
- v. ensuring that when information is requested in connection with inspections, audits, reviews and investigations the information requested is provided as soon as reasonably practicable and in any event within fourteen days of the request being made.

C.11 The Corporate Directors are responsible for:

- i. notifying the Head of Internal Audit immediately of any suspected fraud, theft, irregularity or improper use of or misappropriation of the Council's property or

- resources. Pending investigation and reporting, all necessary steps should be taken to prevent further loss and to secure records and documentation against removal or alteration;
- ii. ensuring that internal and external audit are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work;
 - iii. ensuring that all records and systems are up to date and available for inspection;
 - iv. ensuring that when information is requested in connection with inspections, audits, reviews and investigations the information requested is provided as soon as reasonably practicable and in any event within fourteen days of the request being made.

Preventing fraud and corruption

- C.12 The Corporate Director of Finance ~~and Procurement~~ is responsible for developing, reviewing and maintaining an Anti Fraud and Corruption Strategy and for advising on effective systems of internal control to prevent, detect and pursue fraud and corruption. **LINK**
- C.13 The Corporate Directors are responsible for ensuring compliance with the Anti fraud and Corruption Strategy and with systems of internal control to prevent, detect and pursue fraud and corruption.

Assets

Security of Assets

- C.14 The Corporate Director of Finance ~~and Procurement~~ is responsible for ensuring that processes are in place for maintaining asset registers for fixed asset accounting purposes. in accordance with good practice for fixed assets. ~~The function of the Asset Register is to provide the Council with information about fixed assets so that they are safeguarded, used efficiently and effectively and adequately maintained, as well as for accounting purposes.~~
- C.15 The Corporate Directors should ensure that assets, and records relating to these, are properly maintained. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place.

Inventories

- C.16 The Corporate Directors are responsible for maintaining and reviewing annually inventories of equipment, plant and machinery which has a value of over £200 or is portable and attractive.

Asset Disposal

- C.17 The Corporate Director of Finance ~~and Procurement~~ in conjunction with the Head of Paid Service is responsible for issuing guidelines representing best practice for the disposal of equipment, plant and machinery.

C.18 Corporate Directors are responsible for complying with issued guidelines in respect of all asset disposals.

Stocks of goods and materials

C.19 Corporate Directors are responsible for:

- i. ensuring that stocks of goods and materials are held at a level appropriate to the business needs of the Council;
- ii. ensuring that adequate arrangements are in place for their care and custody;
- iii. writing off the value of obsolete stock in their Directorates of up to £10,000 in consultation with the Corporate Director of Finance ~~and Procurement~~. All sums above £10,000 should be reported by the relevant Corporate Director to the Corporate Director of Finance ~~and Procurement~~ and Deputy Leader and Cabinet Member for Finance and Procurement and then to the Scrutiny Committee for write off action.

Intellectual Property

C.20 The Head of Paid Service is responsible in conjunction with the ~~Director of Governance and Law~~ General Counsel for developing and disseminating best practice regarding the treatment of intellectual property.

C.21 The Corporate Directors are responsible for:

- i. ensuring that controls are in place to ensure that staff do not carry out private work in council time and that staff are aware that anything they create during the course of their employment, whether written or otherwise, belongs to the Council;
- ii. complying with copyright, designs and patent legislation and, in particular, to ensure that:
 - a. —only software legally acquired and installed by the Council is used on its computers,
 - b. —staff are aware of legislative provisions, and
 - c. —in developing systems, due regard is given to the issue of intellectual property rights.

Treasury Management

C.22 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. reporting to the Deputy Leader and Cabinet Member for Finance and Procurement, in accordance with the CIPFA Code of Practice on Treasury Management in the Public Services and accordingly will create and maintain, as the cornerstones for effective treasury management:
 - a. a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities; and
 - b. suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities;

The content of the policy statement and TMPs will follow the recommendations contained in sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such

amendments will not result in the Council materially deviating from the Code's key principles.

- ii. reporting to the Council on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs;
- iii. establishing procedures to monitor and report on performance in relation to Prudential Indicators set by the Council;
- iv. ensuring that all borrowing and all investments of money are made in the name of the Council or in the name of an approved nominee.

C.23 This Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to the Corporate Director of Finance ~~and Procurement~~, who will act in accordance with the Council's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's standard of professional practice on treasury management.

C.24 This Council nominates the Treasury Management Advisory Group and Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

Loans to third parties and acquisition of third party interests

C.25 The Corporate Director of Finance ~~and Procurement~~ is responsible for ensuring, jointly with the Corporate Directors, that loans are not made to third parties and that interests are not acquired in companies, joint ventures or other enterprises without the approval of the Full Council, the Leader, Cabinet or the Deputy Leader and Cabinet Member for Finance and Procurement. **LINK**

Trust Funds and funds held for third parties

C.26 Corporate Directors are responsible for arranging for all Trust Funds to be held, wherever possible, in the name of the Council and ensuring that Trust Funds are operated within any relevant legislation and the specific requirements for each Trust.

Banking

C.27 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. the control of all money in the hands of the Council;
- ii. operating central bank accounts as are considered necessary to the efficient operation of the Council's activities, within the terms agreed with the Council's bankers and reconciled weekly or monthly as required;
- iii. approving the opening or closing of any bank account operated by the County Council.

C.28 The Corporate Directors are responsible for operating bank accounts opened with the approval of the Corporate Director of Finance ~~and Procurement~~ in accordance with issued guidelines.

Imprest Accounts

C.29 The Corporate Director of Finance ~~and Procurement~~ is responsible for providing, in agreed circumstances and where such need is proven to be essential, cash or bank imprest accounts to meet minor or other agreed expenditure and for prescribing procedures for operating these accounts. **LINK**

C.30 The Corporate Directors are responsible for the operation of approved cash and bank imprest accounts in accordance with procedures issued by the Corporate Director of Finance ~~and Procurement~~. **LINK**

Credit Cards and Purchase Cards

C.31 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. providing credit cards and purchase cards to be used for agreed purposes and to be allocated to nominated members of staff;
- ii. prescribing procedures for the use of credit cards and purchase cards and the accounting arrangements required to record and monitor expenditure incurred with such cards.

C.32 The Corporate Directors are responsible for:

- i. Operating the use of credit cards and purchase cards in accordance with the procedures issued by the Corporate Director of Finance ~~and Procurement~~. **LINK**

Card Payment Arrangements

C.33 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. ensuring that card payment arrangements including chip and pin terminals and web based systems, set up for agreed purposes and assigned to nominated staff, are compliant with Payment Card Industry Data Security Standards (PCI DSS)

C.34 The Corporate Directors are responsible for:

- i. maintaining secure card payment arrangements in accordance with the procedures issued by the Corporate Director of Finance ~~and Procurement~~

Staffing Costs

C.35 The Head of Paid Service is responsible for ensuring that there is proper use of the evaluation or other agreed systems for determining the remuneration of a job.

C.36 The Corporate Directors are responsible for:

- i. the management of total staff numbers by:

-
- a. advising the Leader and the relevant Cabinet Member on the budget necessary in any given year to cover estimated staffing levels;
 - b. adjusting the staffing numbers to that which can be funded within approved budget provision;
 - ii. the proper use of appointment procedures;
 - iii. monitoring staff activity to ensure adequate control over such costs as sickness, overtime, training and temporary staff;
 - iv. ensuring that the staffing budget is not exceeded unless the necessary additional ongoing funding is available and the agreement of the relevant Cabinet Member or the Leader or Cabinet is obtained as required.

Further guidance regarding authorisations to appoint members of staff is available in the relevant directorate's Scheme of Financial Delegation.

FINANCIAL REGULATION D – SYSTEMS AND PROCEDURES

Introduction

D.1 Sound systems and procedures are essential to an effective framework of accountability and control.

General

- D.2 The Corporate Director of Finance and Procurement is responsible for:
- i. determining the Council's accounting control systems, the form of accounts and the supporting financial records and for ensuring that systems determined by him/her are observed;
 - ii. approving any changes proposed by the Corporate Directors to the existing financial systems or procedures or the establishment of new systems or procedures;
 - iii. compiling, in consultation with the Corporate Directors, a Business Continuity Plan to provide for as normal a continuation of financial services as possible in the event of any incident affecting systems used to deliver those services.
- D.3 The Corporate Directors are responsible for:
- i. the proper operation of financial procedures and financial processes in their own Directorates in accordance with the systems and procedures set out by the Corporate Director of Finance ~~and Procurement~~;
 - ii. obtaining the approval of the Corporate Director of Finance ~~and Procurement~~ for any developments of new systems and changes to existing systems, by Corporate Directors that involve a financial operation or produce output that may influence the allocation of resources;
 - iii. ensuring that their staff receive relevant financial training;
 - iv. ensuring that, where appropriate, computer and other systems are registered in accordance with Data Protection legislation. The Corporate Directors must ensure that staff are aware of their responsibilities under the Data Protection and Freedom of Information legislation;
 - v. ensuring, jointly with the Corporate Director of Finance ~~and Procurement~~ that there is a documented and tested Business Continuity Plan to allow information system processing to resume quickly in the event of an interruption;
 - vi. ensuring that Oracle Financials is utilised except where otherwise agreed by the Corporate Director of Finance ~~and Procurement~~;
 - vii. ensuring that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements agreed with the Corporate Director of Finance ~~and Procurement~~. **LINK**

Income

D4 The Governance and Audit Committee is responsible for approving procedures for writing off debts as part of the overall framework of accountability and control.

D.5 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. setting the debt management policy for the County Council in order to maximise the income due to the Council and its collection;
- ii. approving the procedures, systems and documentation for the collection of income;
- iii. examining and actioning requests for write offs submitted by Corporate Directors;
- iv. maintaining a record of all sums written off and adhering to the requirements of the Accounts and Audit Regulations;
- v. ensuring that appropriate accounting adjustments are made following write off action;
- vi. ensuring, in consultation with the Corporate Directors, that adequate provision is made for potential bad debts arising from uncollected income.

D.6 The Corporate Director of Finance ~~and Procurement~~ is authorised to write-off the following types of debt where:

- i. the debtor has gone into liquidation or is deceased and there are no funds nor estate on which to claim for recovery of the debt;
- ii. the evidence against a debtor is inconclusive, and the ~~Director of Governance and Law~~ **General Counsel** recommends write-off;
- iii. the debtor has absconded and all enquiries have failed;
- iv. the debtor is in prison and has no means to pay;
- v. the debt is statute barred under the Limitations Act 1990 and the Care Act 2014;
- vi. the debt is remitted by a magistrate.

D.7 Other than covered in D6, all debt write offs over £10,000 should be put forward by the relevant Corporate Director to the Corporate Director of Finance ~~and Procurement~~ in his role of Section 151 Officer for his decision in consultation with the Deputy Leader and Cabinet Member for Finance and Procurement. The relevant Corporate Director will also submit a report for information, comment and assurance to the Governance and Audit Committee, setting out the operational reasons for the write-off.

D.8 The Corporate Directors are responsible for:

- i. compliance with the agreed debt management policy of the Council; **LINK**
- ii. the write-off of irrecoverable debts in their Directorates of up to £10,000 in consultation with the Corporate Director of Finance ~~and Procurement~~;
- iii. ensuring that there is an annual review of fees and charges and that proposals for the level of fees and charges are approved by the Leader or relevant Cabinet Members;
- iv. ensuring that the agreed charging policy is implemented and consistently applied in respect of each relevant activity and service;
- v. separating, as far as is practicable, the responsibility for identifying amounts due and the responsibility for collection;
- vi. ensuring official receipts are issued and to maintain any other documentation for income collection purposes;
- vii. holding securely receipts, tickets and other records of income;
- viii. ensuring the security of cash handling.

Ordering and Paying for Works, Goods and Services

D.9 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. ensuring that all the Council's financial systems and procedures for ordering and paying for works, goods and services are sound and properly administered;

- ii. agreeing, in consultation with the Corporate Directors where appropriate, any changes to existing financial systems and to approve any new systems before they are introduced;
- iii. agreeing the form of official orders and associated terms and conditions;
- iv. making payments from the Authority's funds on the Corporate Director's authorisation that the expenditure has been duly incurred in accordance with Financial Regulations;
- v. defining the requirements for the electronic approval of order or checking and certification of invoices prior to payment to confirm that the goods have been ordered and received, the invoice is in order and is certified for payment by the nominated budget manager. The Corporate Director of Finance ~~and Procurement~~ will set and review a value for invoices, currently £250, below which payment will be made on certification that goods or services have been received and that the invoice is in order but will not require the additional certification of the budget manager;
- vi. making payments, whether or not provision exists within the estimates, where the payment is specifically required by statute or is made under a Court Order;
- vii. making payments to contractors on the certificate of a Corporate Director, which must include details of the value of work, retention money, amounts previously certified and amounts now certified.

D.10 The Corporate Directors are responsible for:

- i. ensuring that the Council's corporate financial systems are used for payment for work, goods and services except where specialist systems are used in agreement with the Corporate Director of Finance ~~and Procurement~~. Staff should not use personal credit cards to pay for work, goods or services on behalf of the Council;
- ii. ensuring that i-Procurement is used for raising orders in the first instance, any verbal orders for works, goods or services are only placed exceptionally and are confirmed with an official i-Procurement order;
- iii. ensuring that orders are only used for goods and services provided to their Directorates. Individuals must not use official orders to obtain goods or services for their private use;
- iv. ensuring that only those staff authorised in the delegated authority matrix (see appendix 4) approve expenditure and sign orders or where necessary ensure they are sealed by Legal Services.
- v. ensuring that goods and services are checked on receipt to verify that they are in accordance with the order. This check should, where possible, be carried out by a different person from the person who authorised the order;
- vi. ensuring that payment is not made unless a proper VAT invoice has been received, checked, coded and certified for payment;
- vii. ensuring that payments are not made in advance of goods being supplied, work done or services rendered to the Council except with the approval of the Corporate Director of Finance ~~and Procurement~~;
- viii. ensuring that invoices are approved for payment by staff authorised by the Corporate Directors and that details of such authorised staff, including specimen signatures and limits of authority, are provided to the Payments Team;
- ix. ensuring that all undisputed invoices are settled within 20-30 days from receipt of the invoice;

- x. ensuring that the Directorate obtains best value from purchases by contacting Strategic Sourcing and Procurement Team for any purchases over £50k, following the guidance in the Knet Procurement pages [LINK](#) and complying with the Council's Code of Practice for Tenders and Contracts 'Spending the Council's Money' which is incorporated in the KNet Procurement pages.
- xi. Compliance with spend mandates, which are published in the how to buy guides accessible via the Knet Procurement page. [LINK](#)

D.11 Deviation from the delegated authority matrix is not generally expected. However, if a different financial limit is required the amendment should be requested via a business case and approved as follows:

Requester	Approver
Budget Manager	Head of Service
Head of Service	Service Director
Service Director	Corporate Director

D.12 All transactions must fall within the powers delegated to officers or have been approved by a decision (in accordance with the Council's Constitution) of the Cabinet, the Leader, an authorised Cabinet Member, the Council or one of its committees or sub-committees.

D.13 No contract, agreement or other document shall be signed or sealed unless it gives effect to:

- i. a decision or resolution (in accordance with the Council's Constitution) of the Leader, the Cabinet, an authorised Cabinet Member or one of its committees or sub-committees or
- ii. a decision by an officer exercising delegated powers

D.14 Budgetary provision must exist before any contract can be entered into. This provision should be explicit in a budget approved by resolution of the Council. Where budgetary approval exists for a specific item further Member approval is not generally required.

D.15 Where there is no specific budget line, the officer with delegated authority may approve expenditure up to £100,000 provided the expenditure can be met within budget. Above £100,000 a formal decision by the Leader, the Cabinet or an authorised Cabinet Member is required in accordance with the Council's Constitution.

Contract Management

D.16 Staff should refer to Spending the Council's Money for advice and guidance regarding contract management. [LINK](#)

Ex Gratia Payments

D.17 The Corporate Directors are responsible for approving reasonable ex gratia payments of £6,000 or less and for ensuring that a record of such payments is maintained.

D.18 For ex gratia payments in excess of £6,000 the Corporate Directors are responsible for obtaining the approval of the relevant Cabinet Member, the Deputy Leader and Cabinet Member for Finance and Procurement and the Corporate Director of Finance and Procurement.

Payments to employees and Members

D.19 The Corporate Director of Finance and Procurement is responsible for:

- i. making arrangements for recording and for the accurate and timely payment of PAYE, Income Tax, National Insurance, and all other statutory and non-statutory payroll deductions;
- ii. ensuring the accurate and timely production of statutory returns to H.M. Revenue and Customs, particularly in respect of the financial year-end and the declaration of employee taxable benefits;
- iii. ensuring that there are adequate arrangements for administering pension matters on a day-to-day basis;

D.20 The Corporate Director of Human Resources is responsible for arranging and controlling secure and reliable payment, on the due date, of salaries, compensation payments or other emoluments, staff expenses and Members' expenses and allowances, and pensions in accordance with procedures prescribed by him or her.

D.21 The Corporate Directors are responsible for:

- i. ensuring that all appointments are made in accordance with the Council's regulations and approved establishments, grades and scales of pay.
- ii. ensuring that adequate budget provision exists for:
 - (a) all employee appointments
 - (b) all permanent and temporary variations relating to employee appointments
 - (c) all engagements of self-employed persons.

Taxation

D.22 The Corporate Director of Finance and Procurement is responsible for:

- i. maintaining the Council's tax records, making tax payments, receiving tax credits and submitting tax returns by their due date as appropriate;
- ii. advising Corporate Directors on all taxation issues that affect the Council in the light of relevant legislation as it applies and guidance issued by appropriate bodies.

D.23 Where the Corporate Directors are owners of financial systems they are responsible for maintaining the appropriate records, making tax payments, receiving tax credits and submitting tax returns by their due date as appropriate.

D.24 The Corporate Directors are responsible for consulting with, and seeking advice from, the Corporate Director of Finance and Procurement on the potential tax implications of any new initiatives for the delivery of Council activity and Services, including those that could impact on our partial exemption.

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Trading accounts

D.25 The Corporate Director of Finance ~~and Procurement~~ is responsible for advising on the establishment and operation of trading accounts.

D.26 The Corporate Directors are responsible for:

- i. observing all statutory requirements in relation to trading activity, including the maintenance of a separate revenue account to which all relevant income is credited and all relevant expenditure, including overhead costs, is charged in accordance with the CIPFA Service Reporting Code of Practice;
- ii. ensuring that the same accounting principles are applied in relation to trading accounts as for other services or business units;
- iii. ensuring that each business unit prepares an annual business plan.

Overheads and Internal Recharges

D.27 The Corporate Director of Finance ~~and Procurement~~ is responsible for:

- i. maintaining a system of delegating budgets to Directorates for support services;
- ii. establishing a framework for the carrying out of overheads and internal recharges in accordance with laid down timetables;
- iii. ensuring that the recipients are clear what each charge covers and provide sufficient information to enable them to challenge the approach being taken;
- iv. arbitrating on disputed recharges where these cannot be satisfactorily resolved between Directorates;
- v. ensuring that overheads and internal recharges for support services are in accordance with the CIPFA Service Reporting Code of Practice for both budget and final accounts purposes.

D.28 The Corporate Directors are responsible for:

- i. ensuring that budgets for the purchase and provision of internal services are agreed between purchaser and provider and properly reflected in annual budgets and business plans and budget monitoring statements;
- ii. raising and/or processing recharges in accordance with the timescales laid down;
- iii. notifying and/or responding to disputed recharges in accordance with the timescales laid down;
- iv. monitoring the processing of recharges in accordance with the timetable agreed with the Corporate Director of Finance ~~and Procurement~~.

FINANCIAL REGULATION E – EXTERNAL ARRANGEMENTS

Partnerships

- E.1 The Corporate Director of Finance ~~and Procurement~~ is responsible for:
- i. promoting the same high standards of conduct with regard to financial administration in partnerships that apply throughout the Council
 - ii. advising on the financial implications resulting from entering into partnership agreements including tax treatment, limitation of liability, valuation of transferred assets or the grant of a right to use existing assets and any other long term issues;
 - iii. advising on the terms of any payment and performance mechanism relating to partnerships entered into by the Council.
- E.2 The Corporate Directors are responsible for:
- i. ensuring that, when entering into partnerships, the Council's financial and operational interests are protected;
 - ii. ensuring that appropriate financial and legal advice is taken before entering into partnership agreements;
 - iii. ensuring that, before entering into partnership agreements with external bodies, a risk management appraisal is carried out and an exit strategy is in place where appropriate;
 - iv. ensuring that necessary approvals are obtained before negotiations are concluded in relation to partnership agreements;
 - v. ensuring that the accounting and financial arrangements for partnerships satisfy the requirements of the Council and allow for any required audit of the partnerships affairs.

More detailed guidance can be found in 'Risk Management of Key Partnerships – A guide to good practice', the Management Guide to Alternative Service Delivery Models and the KCC Companies Protocol [LINK](#)

External funding

- E.3 The Corporate Director of Finance ~~and Procurement~~ is responsible for:
- i. ensuring that procedures are in place so that all the financial implications, including long term issues, resulting from entering into external funding agreements are identified;
 - ii. ensuring that all external funding agreed with external bodies is received and is properly recorded in the Council's accounts;
 - iii. maintaining a record of expected grants in liaison with the Corporate Directors;
 - iv. investigating ways of maximising grant income;
 - v. building in any agreed financial implications (e.g. matched funding) into the budget strategy;
 - vi. accounting for non-specific Government Grants received and receivable and submitting any required returns in respect of these.

- E.4 The Corporate Directors are responsible for:

- i. ensuring that external funding which is sought supports the Councils service priorities;
- ii. ensuring that any matched funding requirements relating to external funding agreements are identified and provided for in the budget prior to any external funding agreement being concluded;
- iii. ensuring that necessary approvals are obtained before external funding agreements are concluded;
- iv. ensuring that the conditions of external funding agreements and any statutory requirements are complied with;
- v. ensuring that expenditure met from external funding is properly incurred and recorded, that income is received at the appropriate time, returns are made by the specified dates, and that audit requirements of the funding body can be met;
- vi. maintaining a record of external funding agreements in place;
- vii. ensuring that any other expenditure associated with the grant (e.g. matching funding) is contained within the agreed Directorate budget;
- viii. accounting for specific Government Grants received and receivable in respect of services for which they are responsible and submitting any required returns in respect of these;
- ix. ensuring that all grants received are recorded in the central register, and in line with the 'Corporate Grant Procedure'. **LINK**

Work for third parties

- E.5 The Corporate Director of Finance ~~and Procurement~~ is responsible for issuing any required guidance on the financial aspects of contracts with third parties and external bodies.
- E.6 The Corporate Directors are responsible for:
 - i. ensuring that work for third parties does not impact adversely on the services of the Council and that before entering into agreements a risk management appraisal has been carried out;
 - ii. ensuring that guidance issued by the Corporate Director of Finance ~~and Procurement~~ is complied with and that all agreements and arrangements are properly documented.
- E.7 The Leader or relevant Cabinet Member is responsible for approving the contractual arrangements for any work for third parties or external bodies where the contract value exceeds £200,000.

Companies

- E.8 In relation to companies that the Council has an interest, it is imperative that they are set up, managed and run according to rules of good governance so that risks are mitigated. The 'Protocol relating to companies in which KCC has an interest' establishes processes and provides additional controls to ensure such rules are in place.
- E.9 Anyone within the Council intending to set up a company must first read both the 'Protocol relating to companies in which KCC has an interest' **LINK** and the more

detailed 'Local Authority Companies' guidance document. Sanctions are in place for non-compliance which can include disciplinary action. **LINK**

- | E.10 The Corporate Director of Finance ~~and Procurement~~ is responsible for advising on the financial implications resulting from the creation of a company including tax treatment and accounting arrangements.
- E.11 The Director of Governance and Law is responsible for advising on the legal requirements and implications with respect to the creation and ongoing running of a company.
- E.12 The Corporate Directors are responsible for:
 - i. ensuring that the 'Protocol relating to companies which KCC has an interest' and the more detailed Local Authority Companies guidance document is complied with; **LINK**
 - | ii. ensuring that legal and financial advice provided by the Director of Governance and Law and the Corporate Director of Finance ~~and Procurement~~ respectively are complied with.

Scheme of Delegation - Approval Limits

Finance Approval Process

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

Procurement & Invoice Approval Process

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

Procurement & Invoice Approval Process

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

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

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

Notes:

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

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

To: Governance and Audit Committee – 11th April 2017

Subject: **External Audit – Update and Audit Plans for Kent
County Council and Kent Superannuation Fund
2016/17**

Classification: Unrestricted

Summary: This paper provides updates and information for the current year from Grant Thornton together with plans for proposed external audit work to enable them to give an audit opinion on the Council's 2016/17 financial statements including the Kent Superannuation Fund. It also incorporates update issues for the Committee.

FOR DECISION

Introduction and background

1. In order that the Governance and Audit Committee is kept up to date with the work of the Councils external auditors, Grant Thornton, update reports are written as appropriate. The attached report covers :
 - Progress for 2016/17
 - Emerging issues and developments
 - Technical matters
2. In addition Grant Thornton are required to provide the Committee (defined as "those charged with Governance" under International Standards of Auditing) with an audit plan covering proposed work in relation to the Council's financial statements (which includes the Kent Superannuation Fund). The reports attached set out the results of Grant Thornton's latest risk assessment in relation to their audit of the financial statements including the superannuation fund and provides information on:
 - The audit approach
 - Identification of risks that impact on the work that Grant Thornton propose
 - Result of progress and interim work including emerging issues and developments

Process - Audit Planning

3. The Kent County Council and Kent Superannuation Fund Audit Plan reports emphasise the respective responsibilities of the Auditors and Audited Body and set out the results of a risk assessment in relation to their opinion on the financial statements and the Council's arrangements for value for money.
4. Both reports set out the proposed timetable for the opinion audit, including reporting to Committee.

Recommendations

5. Members of the Governance and Audit Committee are asked to:
 - Note the current progress on external audit work
 - Review the outcomes of Grant Thornton's updated risk assessment;
and
 - Approve the audit plans for Kent County Council and Kent Superannuation Fund for 2016/17.

Robert Patterson
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The Audit Plan for Kent County Council

Year ended 31 March 2017

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Dear Members of the Audit Committee

Audit Plan for Kent County Council for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Kent County Council, the Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Paul Hughes
Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments	Key challenges	Financial reporting changes										
<p>Highways network asset (HNA)</p> <p>On the 14 November, 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17. This deferral is due to delays in obtaining updated central rates for valuations.</p> <p>CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.</p> <p>Integration with health sector within local STPs</p> <p>Kent County Council has a major role to play in developing the region wide Kent and Medway Sustainability and Transformation Plan.</p> <p>The STP was published in November 2016 and plans around governance and monitoring arrangements are progressing quickly.</p> <p>Transformation and rapid integration/collaboration with Health Economy partners in provision of social care will be the priority. This should allow for further investment in development of new social care pathways.</p>	<p>Spring Budget</p> <p>The Chancellor detailed plans in the Spring Budget to increase funding for local authorities to tackle urban congestion (£690m competition), and an additional £2bn funding over the next 3 years for social care (as mentioned below in our Value for Money risk assessment below).</p> <p>Medium Term Financial Sustainability</p> <p>The Spring Budget did present some opportunities for Kent County Council to bridge budget gaps in infrastructure and social care but overall the pressure on expenditure driven by withdrawal of central government funding remains and your main challenge in will be to balance your budget in the medium term.</p>	<p>CIPFA Code of Practice 2016/17 (the Code)</p> <p>Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.</p> <p>Earlier closedown</p> <p>The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.</p> <p>You have detailed and well practised accounts closedown procedure in place which side by side with our planned efficient audit processes has allowed your accounts to be signed off prior to the 31 July for a number of years. Therefore, the nationwide implementation of this deadline will only bring national guidance into line with your established processes.</p>										
	<p>Key performance indicators</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr style="background-color: #4a4a8a; color: white;"> <th>Measure</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Revenue budget 2016/17</td> <td>£920.6m</td> </tr> <tr> <td>Revenue variance at Month 10 (excluding schools)</td> <td>£2.7m deficit</td> </tr> <tr> <td>Capital budget 2016/17</td> <td>£307.8m</td> </tr> <tr> <td>Capital variance at Month 10 (excluding schools and PFI)</td> <td>£54.4m underspend</td> </tr> </tbody> </table>	Measure	Value	Revenue budget 2016/17	£920.6m	Revenue variance at Month 10 (excluding schools)	£2.7m deficit	Capital budget 2016/17	£307.8m	Capital variance at Month 10 (excluding schools and PFI)	£54.4m underspend	
Measure	Value											
Revenue budget 2016/17	£920.6m											
Revenue variance at Month 10 (excluding schools)	£2.7m deficit											
Capital budget 2016/17	£307.8m											
Capital variance at Month 10 (excluding schools and PFI)	£54.4m underspend											

Our response

- We will discuss with you updates from CIPFA on the HNA requirements, highlighting any areas of good practice or concern which we have identified.
- We aim to complete all our substantive audit work of your financial statements by July 2017
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will review the Council's progress in managing its responsibilities for public health and how it is working with partners, as part of our work in reaching our VFM conclusion
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £44,033k (being 2% of gross revenue expenditure). In the previous year, we determined final materiality to be £42,803k (being 2% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2,201k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have not identified any items where separate materiality levels are appropriate.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Kent County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition as the Council is predicting a year end surplus • opportunities to manipulate revenue recognition are very limited due to the nature of the majority of income being from central government grants • the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable.
Management override of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Discussions about the proposed accounting estimates, judgments and decisions made by management • Selections of month 1 – 8 journal entries made and support for these has been obtained • Obtained a breakdown of journal values by type to assess on which walkthroughs are required <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 9 -12 and closedown period • Walkthroughs of material journal entry streams

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Valuation of Pension Fund Net Liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability disclosures in the notes to the financial statements with the actuarial report from your actuary.
Property, Plant and Equipment (PPE)	Revaluation measurements not correct (valuation)	<p>Work planned:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls (requested to perform at year-end). • Discussion with officers about the valuation approach in 2016/17. • Review the reconciliation of the valuation report to the asset register and accounts. • Perform assurance procedures over the work of the external valuation specialist as an expert. • Consider any changes in the valuation of property, plant and equipment and investment properties and ensure these changes are appropriate and correctly accounted for in the disclosure notes.

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Changes to the presentation of local authority financial statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 175</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Intangible assets
- Investments (long term and short term)
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- New note disclosures
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Telling the story

Value for Money

Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out opposite:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> Acting in the public interest, through demonstrating and applying the principles and values of sound governance Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management Reliable and timely financial reporting that supports the delivery of strategic priorities Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions Managing and utilising assets effectively to support the delivery of strategic priorities Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> Working with third parties effectively to deliver strategic priorities Commissioning services effectively to support the delivery of strategic priorities Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, [including the Care Quality Commission and Ofsted].
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

We have identified significant risks which we are required to communicate to you. These are set out overleaf.

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Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion in our auditor's report on your financial statements which we will give by 19 July 2017.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Health & Social Care Integration</p> <p>The Kent and Medway Sustainability and Transformation Plan (STP) was published in November 2016. There is recognition that healthcare needs dramatic transformation in when and where care is delivered and integration of the social care system with the NHS structures.</p> <p>Kent County Council has a major role to plan in developing the whole of the STP across Kent with the key measure of medium/long term success being a reduced demand for hospital care and emergency services which is achieved through better social care in the community, better signposting in public health to the right care at the right time, and effective partnership relationships between different public bodies facilitated by the Council.</p> <p>Kent County Council, being at the forefront of the social care redesign and in an important facilitator position, will need to make significant investment in service redesign within its own social care services, ensure through participation in shared governance bodies such as the STP Programme Board that its efforts are in line with other bodies and that collaboration/sharing takes place wherever possible.</p> <p>This will clearly be a significant challenge for the Council in the medium and long term – transformation and collaboration take time to plan and implement, but the mindset needs to become embedded in Kent’s Health Economy. Your central role in this transformation project means it will present one of the most significant risks for Value for Money.</p>	<p>This links to:</p> <ul style="list-style-type: none"> - your arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control; - your arrangements over informed decision making, managing assets and working with partners effectively to support the delivery of strategic priorities. 	<p>We will:</p> <ul style="list-style-type: none"> - review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks; - review your plans for transformation of social services and integration with other services in the Kent Health Economy; - review your plans for participation in shared governance structures and shared monitoring of expenditure and outcomes within the Kent and Medway STP.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>Medium Term Financial Sustainability</p> <p>At Month 10 of the 2016/17 year you are forecasting a small £2.7m overspend, though this may be mitigated by management action and Home Office funding mitigating the asylum expenditure pressures.</p> <p>You have set a balanced budget for 2017/18 with a net budget requirement of £906m, and this requirement rises to £928m in 2019-20. The reduced central government funding and grants will mean that there are continuous pressures on your medium term financial, and this is clearly shown by the residual £97m budget gap in 2017/18 which you are bridging with efficiency saving, increased revenue generation and one-off use of your reserves.</p> <p>The government has allowed a 6% increase in Council Tax over 3 years towards the cost of adult social care which will help the medium term budget assumptions, but the position still remains extremely challenging, reflecting the nationwide picture.</p>	<p>This links to your arrangements over planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions, as well as understanding and using appropriate cost performance information to support informed decision making and performance management.</p>	<p>We will review your arrangements over medium term financial planning. This will include the reasonableness of significant assumptions around inflation, growth and savings.</p> <p>We will consider your plans to close the projected budget gap from 2017/18 to 2019/20, including identification of savings plans, additional revenue generation plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State

We certify completion of our audit.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>The specialist concluded that IT (information technology) controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

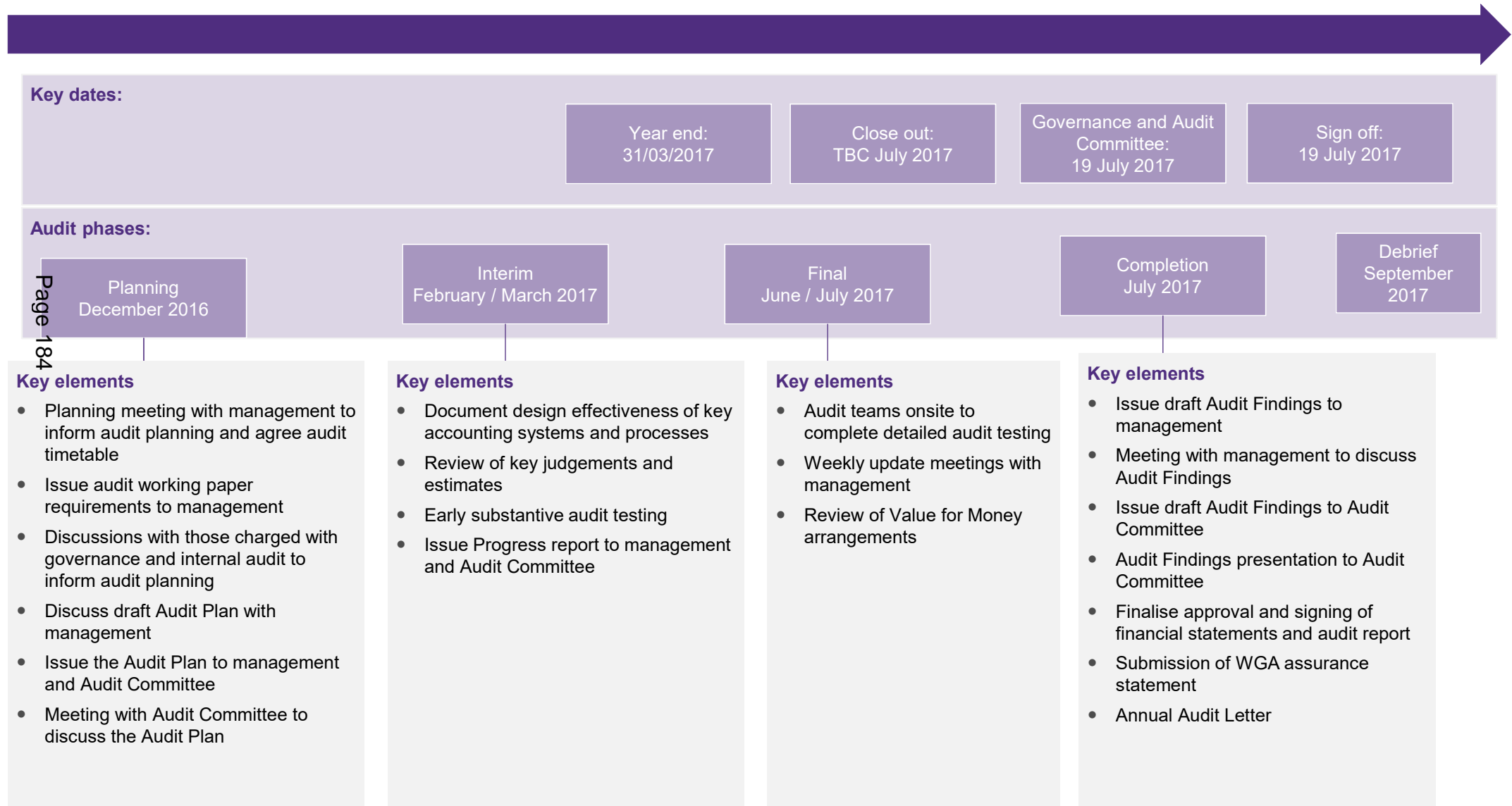
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Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. At the date of this report we have carried out walkthrough tests of operating expenses and employee remuneration.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>We plan to carry out the walkthrough test of the PPE system in early June.</p>
Journal entry controls	<p>We have obtained a breakdown by category of journal in terms of value in order to assess those categories that will require journal entry walkthroughs.</p> <p>We have made individual journal selections for the first 8 months.</p> <p>We have extracted unusual journals and based on this extraction no unusual journals have been identified to date.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Early substantive testing	<p>We have completed testing of exit packages from months 1 through 9.</p> <p>We have performed sample testing on Operating Expenditure as well as 'other' income for periods 1 through 8.</p>	<p>Our audit work has not identified any significant issues which we would like to bring to your attention.</p> <p>The outstanding work will be completed at the accounts audit visit.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	155,925
Total audit fees (excluding VAT)	155,925

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Fees for other services detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

Service	Fees £
Audit related services:	
• Journey Time Improvement RGF	8,240
• Teachers Pensions	4,120
• CFO Insights license	3,333
• RGF Scheme Evaluation	42,019
• Tax Advisory – group issues	£5,150
• Objection	TBC
Non-audit services	62,862

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

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We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As an auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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The Audit Plan for Kent Superannuation Fund

Year ended 31 March 2017

11 April 2017

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11 April 2017

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Dear Members of the Governance and Audit Committee

Audit Plan for Kent Superannuation Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Kent Superannuation Fund, the Governance and Audit Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Elizabeth Jackson

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017.

The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services.

These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has improved from the date of the last valuation. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored.

Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Key performance indicators

Measure as at 31 st December 2016	Value
Net assets under management	£5.271bn
Growth in previous quarter	£146.1m
Number of employers	581
Value of Contributions paid on time	99%

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

The Council and Pension Fund teams have been preparing the accounts early and receiving an audit opinion in July for a number of years so we do not see this as a concern for Kent.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by the start of July 2017 and issue an audit opinion by the end of July.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £45,975k (being 1% of net assets from prior year audited accounts). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £2,299k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Kent Superannuation Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Kent Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Kent Superannuation Fund.</p>
Management override of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Risk assessment of accounting estimates, judgments and decisions made by management <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Level 3 Investments Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	Work completed to date: <ul style="list-style-type: none"> • We have performed walkthrough tests of the controls identified in the process. Further work planned: <ul style="list-style-type: none"> • For a sample of private equity investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment purchases and sales	Investment activity not valid. Investment valuation not correct. (Valuation gross)	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances. If required, we will perform substantive testing of purchases and sales incurred during the year and agree these to supporting documentation.
Investment values – Level 2 investments	Valuation is incorrect (Valuation net)	<p>Work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances If required, we will test a sample of level 2 investments to independent pricing sources to provide assurance
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over occurrence, completeness and accuracy of contributions Undertake a monthly trend analysis over the contributions received during the year to gain assurance over the completeness of contributions included within the accounts. Testing a sample of contributions to source data to gain assurance over their accuracy and occurrence, including contributions from Kent County Council co-ordinated with the Council's audit team as well as those from Admitted and Scheduled Bodies. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the cycle. Interim controls testing over completeness, accuracy and occurrence of benefit payments. <p>Further work planned:</p> <ul style="list-style-type: none"> Complete controls testing listed above to provide coverage for the full financial year. Testing of a sample of individual pensions in payment by reference to member file. Undertake a monthly trend analysis over the pension payments made during the year to gain assurance over the completeness of benefits paid included within the accounts. We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have performed walkthrough tests of the controls identified in the cycle. <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over annual reconciliations and verifications with individual members Complete controls testing of changes to member data for new member, leavers and new pensioners that occurred during the year to source documentation to provide coverage for the full financial year.

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"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Cash deposits
- Current assets
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits disclosures
- Financial Instrument disclosures

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

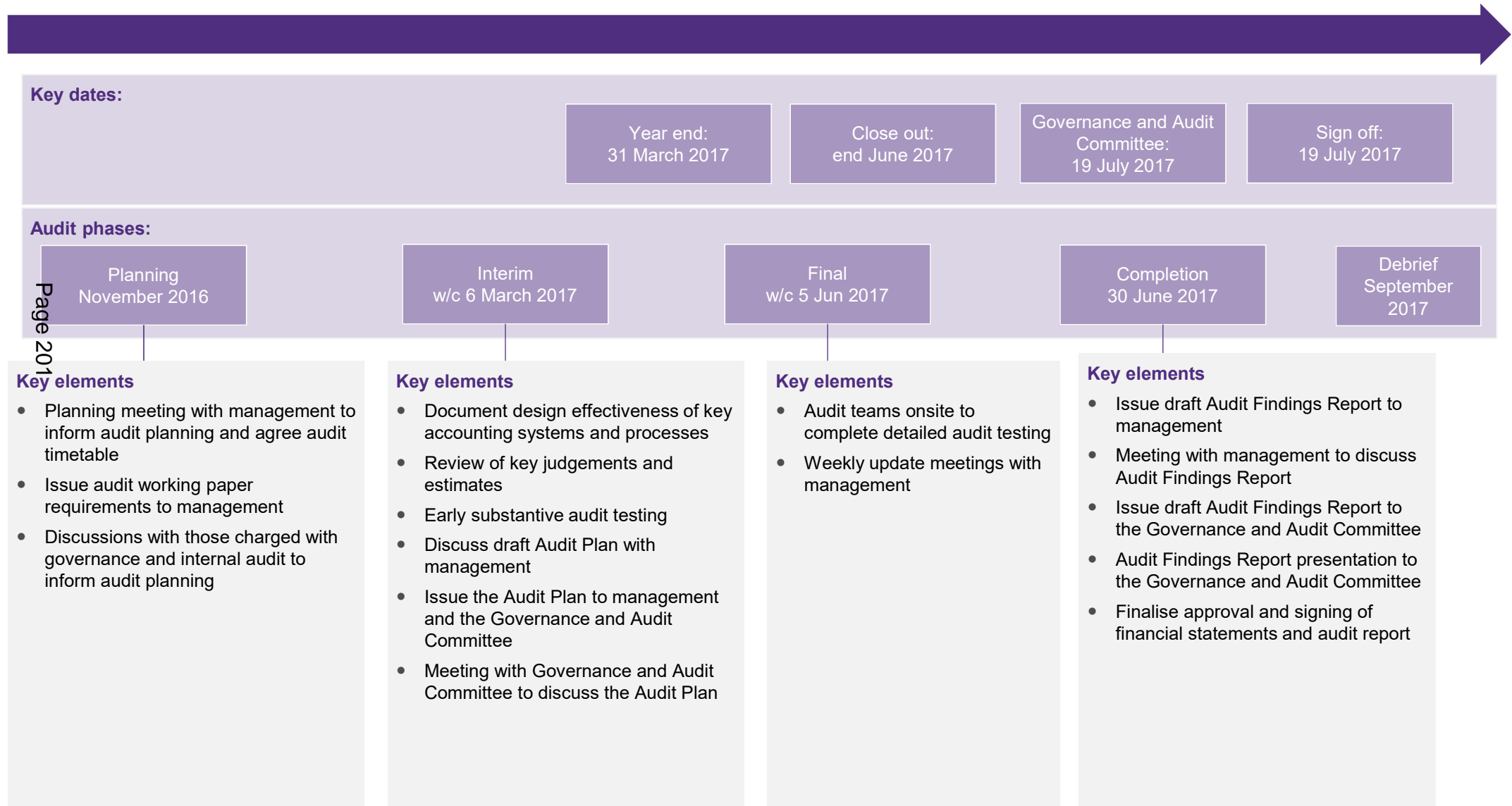
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Fund's key financial systems to date.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls Page 199	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>
Review of information technology controls	<p>We performed a high level review of the general Information Technology (IT) control environment, as part of the overall review of the internal controls system.</p> <p>IT controls were observed to have been implemented in accordance with our documented understanding.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Controls testing Page 200	<p>We performed testing of the operating effectiveness of key controls on those information systems where we had identified a reasonably possible risk of material misstatement to gain assurance about this and to reduce the amount of substantive testing performed on the financial statements. We have commenced testing on:</p> <ul style="list-style-type: none"> - The controls for contributions, members data, including new starters, leavers and new pensioners. The testing on new pensioners also provided assurance on the controls for benefit payments. <p>This work is currently being reviewed and we will update this section with details of all the work completed in the final version of the Plan.</p>	<p>Any findings from our work in this area will be updated in the final version of the Plan presented to the Governance and Audit Committee. Further testing will be performed at year end to ensure that we have obtained assurance that these controls were in operation for the whole of 2016-17.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Pension fund audit	£30,568
Total audit fees (excluding VAT)	£30,568

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓



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

To: Governance and Audit Committee – 11 April 2017

Subject: **External Audit – Fee letter 2017/18**

Classification: Unrestricted

Summary: This paper presents the planned external audit fee for the Council for 2017/18

FOR DECISION

Introduction and background

1. Grant Thornton, as External Auditor to the Council, is required to report the scale fee and billing schedule for the Council as well as the audit of the Pension Fund. This includes work on auditing the financial statements through to value for money arrangements.
2. The scale fee has been influenced by procurement exercise that was run by the former Audit Commission but which is now overseen by Public Sector Audit Appointments (PSAA) such that the total fees for 2017/18 is estimated to be £155,925, which is the same as the previous year.

Recommendation

3. Members of the Governance and Audit Committee are asked to note the planned audit fees for 2017/18.

Robert Patterson

Head of Internal Audit (03000 416554)

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21 March 2017

Dear David

Planned audit fee for 2017/18

The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.

PSAA will oversee the Commission's audit contracts for local government bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements until 2017/18. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

Scale fee

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales'.

There are no planned changes to the overall work programme for local government audited bodies for 2017/18.

PSAA have proposed that 2017/18 scale audit fees are set at the same level as the scale fees applicable for 2016/17. The Council's scale fee for 2017/18 has been set by PSAA at £155,925.

The audit planning process for 2017/18, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and

Chartered Accountants

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guidance for auditors from April 2015. Audits of the accounts for 2017/18 will be undertaken under this Code, on the basis of the work programme and scale fees set out on the [PSAA website](#). Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

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

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Pension Fund audit

PSAA has established a scale of fees for pension fund audits based on a fixed element with uplift based on the percentage of net assets. The scale fee for the audit of the pension fund is £30,568. Our work on the pension fund will be undertaken between March and June 2018 by our specialist pension fund audit team.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2016	38,981
December 2016	38,981
March 2017	38,981
June 2017	38,982
Total	155,925
<hr/>	
Pension Fund audit	

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2017 to March 2018. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed in June to July 2018 and work on the whole of government accounts return in August 2018.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2017 – March 2018	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of the Council's accounts and VfM.
Final accounts audit	June – July 2018	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January – July 2018	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	August 2018	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	October 2018	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2017/18 are:

	Name	Phone Number	E-mail
Engagement Lead	Paul Hughes	0207 728 2256	paul.hughes@uk.gt.com
Senior Manager	Nicholas White	0207 728 3357	nicholas.j.white@uk.gt.com
Engagement Manager	Andy Conlan	07393 762 443	andy.n.conlan@uk.gt.com

In Charge Auditor	Robert Brearley	0207 383 5100	robert.j.brearley@uk.gt.com
Pensions Engagement Lead	Elizabeth Jackson	0207 728 3329	elizabeth.l.jackson@uk.gt.com
Pensions Audit Manager	Matthew Dean	0207 383 4715	matthew.dean@uk.gt.com
Pensions In Charge Auditor	Keith Mungadzi	01293 554 135	keith.mungadzi@uk.gt.com

Additional work

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

Quality assurance

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

Yours sincerely

Paul Hughes

Engagement Lead

For Grant Thornton UK LLP

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

To: Governance and Audit Committee – 11 April 2017

Subject: **Fraud, Law and Regulations and Going Concern
Considerations**

Classification: Unrestricted

Summary: The attached questionnaire from Grant Thornton summarises management's responses to questions on the Council's processes in relation to fraud, law and regulations and going concern risks.

FOR DECISION

Introduction

1. Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Governance and Audit Committee (G&AC). ISA (UK&I) emphasise the importance of two way communication between the auditor and the G&AC and also specify matters that should be communicated.
2. This two way communication enables the auditor to obtain information relevant to the audit from the G&AC and supports the G&AC in fulfilling its responsibilities in relation to the financial reporting process.

Purpose of Report

3. As part of Grant Thornton's risk assessment procedures they are required to obtain an understanding of management processes and the G&AC oversight of the following areas:
 - Fraud
 - Laws and regulations
 - Going concern
4. The attached report includes a series of questions on each of these areas and the response we have provided to Grant Thornton. Although incorporated into a Grant Thornton report and layout, these are responses from KCC management.
5. The G&AC should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

Recommendation

6. Members are asked to agree the management responses provided to Grant Thornton.

Andy Wood
Corporate Director of Finance
03000 416854

Informing the audit risk assessment for Kent County Council and Kent Pension Fund

Year ended 31 March 2017

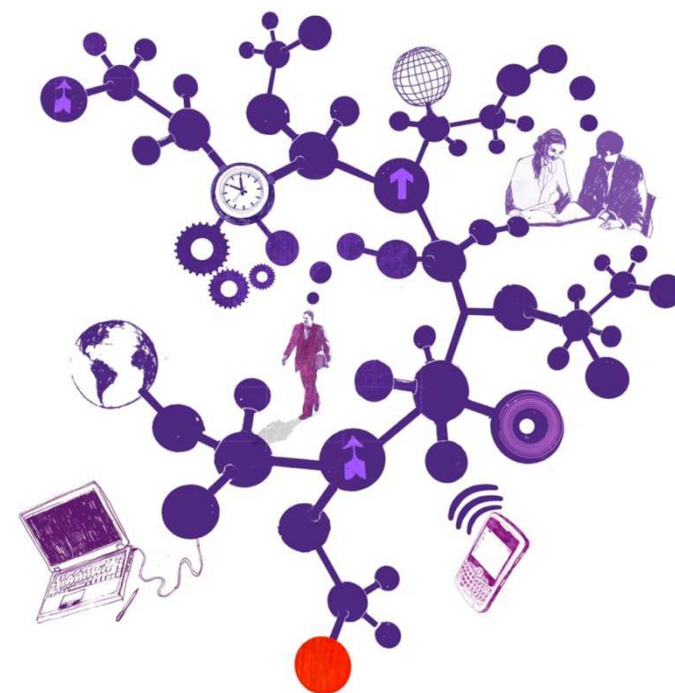
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to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

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Governance and Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Governance and Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Issue

Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>The risk is minimal. Controls are in place through the budget setting, budget monitoring and year-end analytical review. We now have details on a business intelligence dashboard of cost centres per budget manager, A-Z lines and manager analysis enabling an easily accessible view at a detailed level allowing us to target and challenge any budget manager where we perceive there may be anomalies. We also have a regular balance sheet management review. Variances must be explained and validated. Significant changes from previous year's spend must also be explained.</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud?</p>	<p>The Council has key policies and procedures in place which includes a code of conduct, whistleblowing, anti-fraud and corruption and anti-bribery.</p> <p>The council has a dedicated counter fraud team within internal audit who promote an anti-fraud culture. In 16/17 the fraud team continued to run fraud awareness courses and campaigns including providing advice to staff on what to do if they suspect fraud including how to report it.</p> <p>In addition, the team undertakes proactive reviews of areas that might be susceptible to fraud such as expenses systems and recommends improvements in controls if weaknesses are identified. In 16/17 the Council continued its project management of the DCLG funded Kent Intelligence Network involving data matching with other public bodies. Initial outcomes highlighting potential single person discount and business rate fraud and error were generated from the system and are being investigated by partner District Councils.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>The council's whistleblowing arrangements continue to be effective and have been strengthened through on going fraud awareness courses and campaigns. This has resulted in a maintenance of detected fraud to similar levels from previous years.. Where control weaknesses have been identified these have been addressed and the results reported to the Governance and Audit Committee.</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>Generally internal controls are operating effectively. Where weaknesses have been identified these have been addressed by management. In addition, Corporate Directors will be required to submit their supporting statements for the Annual Governance Statement which are independently reviewed by internal audit.</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>Yes, this is a risk applicable to any budget manager, as their performance against budget is a factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring and year end processes, as well as setting realistic budgets to start with. The creation of KCC Companies does increase risk but appropriate controls /governance are in place.</p>

Fraud risk assessment

Question	Management response
<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>For all significant areas of activity, we have the internal management controls of supervision, segregation of duties, exception reporting, as well as the independence of the Internal Audit and Counter Fraud team, along with the absolute independence of the Head of Audit.</p>
<p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p>	<p>The Committee has agreed and monitors the annual internal audit plan that provides assurance in relation to the management of the significant risks faced by the Council (including fraud risk), and also provides assurance on the risk management and governance frameworks put in place by management. This is reported via quarterly reports and an annual report that provides key themes of areas where internal control may need improving.</p>
<p>What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p>	<p>The Committee has received quarterly progress reports from Internal Audit which includes details of frauds and irregularities and lapses or breaches of internal control. Grant Thornton has access to the same information through the published papers of the Committee. As such the Committee is provided with interim assurance and evidence on material fraud at each meeting</p>
<p>How has the Council ensured that the Governance and Audit Committee are made aware of whistle-blower tips or complaints?</p>	<p>There remain cases that are still subject to investigation which have yet to be reported. The Head of Internal Audit has provided assurance that the circumstances of these cases would not be considered significant, although until the investigations are complete this cannot be guaranteed. The Committee receives, requests and assesses ad-hoc and routine assurance reports on:</p> <ul style="list-style-type: none"> • Complaints (including those referred to the Ombudsman) • Surveillance activities • Debt recovery and management • Treasury management • Insurance activities <p>In July 2017, the Committee will be asked to review the Annual Governance Statement of the Council. This process will include consideration of the Council's ability to identify and manage risks and a consideration of the overall internal control environment. The Internal Audit team have a systematic process that captures all tip-offs, records action taken, and concludes as part of an and integrated governance 'health check' reporting process to the Governance & Audit Committee.</p>

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Fraud risk assessment

Question	Management response
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>The council has a suite of policies and processes in place to communicate and encourage ethical behaviour from its staff and contractors including (but not limited to) the:</p> <ul style="list-style-type: none"> Kent Code Bribery Act Policy Anti-Fraud and Corruption Policy Whistleblowing policy <p>These policies are available for all staff to view on Knet. They are signposted to new staff during their induction. There are also regular reminders issued via Kmail.</p> <p>In addition, the fraud team delivered on going fraud awareness courses and campaigns which promoted ethical behaviour. During 2016/17 following an internal audit review the Council has also refreshed its approaches to compliance with the Bribery Act.</p>
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>Staff are encouraged to report concerns of fraud through the council's policies and its management. The fraud team also encourage staff to report concerns through a programme of fraud awareness activity. The team also promotes and manages the whistleblowing helpline.</p> <p>In 2016/17 the counter fraud team built on previous awareness campaigns by delivering tailored training to a number of departments, establishments and schools.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	<p>No. Employees and Members are required to declare any conflicts of interests as well as any gifts and hospitalities. This is then checked against payments made, from and to any interested party.</p> <p>In addition an internal audit of declarations of interest took place in 2016/17 with no material issues found.</p>
Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2016?	<p>Yes. Management and the Governance and Audit Committee have been informed of a number of allegations. Any requiring investigation following preliminary enquiries, have been investigated. Some incidents have been referred to the Police or Trading Standards. A number of staff have been subject to disciplinary sanctions and members of the public have received cautions or warning letters.</p>

Laws and regulations

Issue

Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Governance and Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>Internal Audit, Democratic Services and Legal Services are always vigilant in ensuring compliance with laws and regulations. The council has policies and procedures with govern staff activity and member decision-making and activity is governed by the Constitution. The council's audit activity specifically considers governance issues and involves lawyers where necessary. In the past year, the council has adopted a new legal model which includes a General Counsel role to support the council's lawfulness.</p> <p>From 1 April 2017, this model will include a weekly update on key legal issues to ensure that officers are updated on changes to legislation and case law. The implementation of a new legal model will also drive changes through 2017 around mandating legal advice in certain circumstances.</p> <p>Democratic Services have established processes around decision-making that consider the lawfulness of proposals and escalate to the General Counsel where required.</p> <p>The Procurement team work closely with Directorates to ensure compliance with EU procurement laws.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>As above, plus 1:1 supervision between managers and their direct reports, plus the Corporate Directors Annual Governance Statement, as well as external reviews e.g. OFSTED. The new General Counsel role (a solicitor) sits on the council's Corporate Management Team, Corporate Board and advises the Governance and Audit Committee and the Full County Council. The attendance of the General Counsel ensures an early discussion of key legal issues on strategic items. The Corporate Law and Assurance team also support divisional management teams with commissioning appropriate legal advice.</p>

Impact of laws and regulations

Question	Management response
How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>The Governance and Law division is responsible for ensuring that the Council correctly applies the law and regulations governing its business. The department is led by the General Counsel, who is also a solicitor and the Council's Monitoring Officer and, as part of the process to support the Annual Governance Statement, has submitted a statement of assurance with regard to his statutory duties.</p> <p>The General Counsel attends Governance and Audit Committee, and would make the Committee aware of any significant possible instances of noncompliance with laws and regulations. In addition, the Head of Internal Audit would also report any known significant instances of non-compliance with laws and regulations. Internal Audit has reported on instances of non-compliance with relevant laws and regulations within their quarterly reports. The General Counsel and the Head of Internal Audit meet on a quarterly basis with the Section 151 Officer and the Head of Paid Service to discuss emerging trends and risks. The General Counsel and Head of Internal Audit have cascaded learning through Challenger Group and T200 Management Group and to an extended Corporate Management Team.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2016, or earlier with an on-going impact on the 2016/17 financial statements?	None that we are aware of.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Chief Accountant liaises with Legal Services team to capture all potential claims. Legal estimate the potential 'loss' as best they can. This is then reported to this Committee through the Statement of Accounts in July.
Is there any actual or potential litigation or claims that would affect the financial statements?	Not at this stage, but this will be kept under review throughout the Closedown process
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No.

Going concern

Issue

Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

The consideration of the going concern assumption is becoming of greater relevance to local authority financial statements. All councils are facing significant pressures to balance future budgets as the funding from central government continues to reduce. There is a risk, particularly in smaller local authorities, that services will no longer be provided in the way they have historically been delivered. There is an increasing vulnerability of these bodies as a going concern.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	This assessment is carried out by the S151 officer on an ongoing basis but especially at the time of setting the budget and producing Final Accounts. The S151 officer also monitors the Council's cash position on a daily basis. Given the increasing pressure on Councils, our monitoring / forecasting / reporting process has been speeded-up, to ensure swift decision making can be made to correct any forecast variances that could impact n our reserves and ultimately our judgement of 'going concerns'.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None in the short-medium term.
Has management reported on going concern to the Governance and Audit Committee? (if not, what arrangements are in place to report the going concern assessment to the Governance and Audit Committee?)	This is reported through the S151 officer certification within the Statement of Accounts, and through his Section 25 Assurance on County Council Budget day. The regular budget monitoring reports to Cabinet are also the opportunity to report any concerns, and six monthly updates on delivery of savings is reported to Governance and Audit Committee.
Are the financial assumptions in that report (eg future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	N/A

Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p>Yes, including in the Medium Term Financial Plan, and regular monitoring reports.</p>
<p>Have there been any significant issues raised with the Governance and Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	<p>No.</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow?</p> <p>If so, what action is being taken to improve financial performance?</p>	<p>No.</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?</p> <p>If not, what action is being taken to obtain those skills?</p>	<p>The Council is continually changing in line with its transformation agenda. This will undoubtedly result in a reducing number of senior managers. However, this is recognised and the risks are mitigated through effective training and succession planning.</p>



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