

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 24th April, 2018

10.00 am

Darent Room - Sessions House





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 24th April, 2018, at 10.00 am
Darent Room - Sessions House

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

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

Membership (11)

Conservative (8) Mr N J D Chard (Chairman), Mr R A Marsh (Vice-Chairman),
Mrs R Binks, Mr G Cooke, Mrs S V Hohler, Mr M J Horwood,
Miss C Rankin and Vacancy

Liberal Democrat (1): Mr R H Bird

Labour (1) Mr D Farrell

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 - 25 January 2018 (Pages 5 - 12)

5. Committee Work and Member Development Programme (Pages 13 - 16)
6. Internal Audit and Counter Fraud Plan 2018-19 (Pages 17 - 62)
7. Internal Audit and Counter Fraud Progress Report (Pages 63 - 108)
8. Treasury Management Update (Pages 109 - 120)
9. Revised Accounting Policies (Pages 121 - 122)
10. Updated Financial Regulations (Pages 123 - 166)
11. External Audit - Update and Audit Plans for Kent County Council and Kent Superannuation Fund 2017-18 (Pages 167 - 220)
12. Fraud Law and Regulations and Going Concerns Considerations (Pages 221 - 238)
13. Statutory Accounts for those companies in which KCC has an interest (Pages 239 - 252)
14. Performance of KCC wholly owned Companies 2016-17 (Pages 253 - 256)
15. East Kent Opportunities LLP (Pages 257 - 260)
16. Other items which the Chairman decides are urgent

EXEMPT ITEMS

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

Benjamin Watts
General Counsel
03000 416814

Monday, 16 April 2018

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

TERMS OF REFERENCE

Governance and Audit Committee

10 Members

Conservative: 7; Liberal Democrat: 1; Labour: 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 Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 25 January 2018.

PRESENT: Mr N J D Chard (Chairman), Mr R A Marsh (Vice-Chairman), Mrs R Binks, Mr R H Bird, Mr G Cooke, Mr D Farrell, Mrs S V Hohler, Mr M J Horwood, Miss C Rankin and Mr M E Whybrow

ALSO PRESENT: Miss S J Carey and Mrs M E Crabtree

IN ATTENDANCE: Mr A Wood (Corporate Director of Finance), Mrs A Mings (Treasury and Investments Manager), Mrs C Head (Head of Financial Management), Hanson (Client Services Officer), Mr R Patterson (Head of Internal Audit), Ms S Buckland (Audit Manager), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager), Ms D Trollope (Head of Engagement and Consultation), Mrs R Spore (Director of Infrastructure) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

1. **Minutes - 1 November 2017**
(*Item 4*)

RESOLVED that the Minutes of the meeting held on 1 November 2017 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 provided an update on the forward Committee Work and Member Development programme following best practice guidelines in relation to Audit Committees.

(2) The Committee considered whether to request a report on KCC's preparedness to meet the requirements of the General Data Protection Regulation (GDPR). It concluded that as the Policy and Resources Cabinet Committee was due to receive a detailed report on this matter, a decision on whether it would do so should be taken after that report had been published and considered by that Committee.

(3) RESOLVED that approval be given to the forward Committee Work programme and Member Development programme set out in the report.

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, the Director of Strategy, Policy, Relationships and Corporate Assurance agreed to communicate concerns expressed over the absence of possible *Brexit* – related risks in Risk CRR0006 to the Corporate Director of Adult Social Care and Health.

(3) RESOLVED that 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 only minor amendments were proposed.

(2) RESOLVED that approval be given to the Risk Management Policy and Strategy for the year 2018.

5. Treasury Management six month review 2017-18
(Item 8)

(1) The Committee considered a report covering Treasury Management activity for the six months to 30 September 2017 and developments up to the date of the report.

(2) 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 Committee considered a report on the County Council's debt position.

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

7. Update on Savings Programme

(Item 10)

(1) The Committee considered a report on progress towards the 2017-18 and 2018-19 budget savings.

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

8. Customer Feedback - Local Government Ombudsman Decisions 2016/17 in depth

(Item 11)

(1) The Head of Engagement and Consultation presented the report which had been requested at the previous meeting, focussing on the complaints received by the Local Government Ombudsman with a particular emphasis on Special Educational Needs (SEN) cases.

(2) The Chairman informed the Committee that he had a particular interest in this matter as a family member had experienced difficulties in obtaining an EHC Plan. This was neither a Disclosable Pecuniary Interest nor an Other Significant Interest as the matter had now been resolved.

(3) Mr G Cooke informed the Committee that he was the Chairman of the Children's, Young People and Education Cabinet Committee which had considered the question of support for SEN children. He said that his Committee shared the concerns over the number of instances where the Ombudsman had found in favour of the complainants as well as the delays in provision which these complaints highlighted. He was reassured that KCC was on track to meet the deadline of April 2018 for the transfer of all statements to EHCPs. His Committee would continue to monitor the situation.

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

9. Effectiveness of Internal and External Audit Liaison

(Item 12)

(1) The Committee considered a report on the effectiveness of Internal and External Audit liaison.

(2) RESOLVED that the report be noted for assurance together with the External Audit Protocol appended to the report.

10. External Audit Update

(Item 13)

(1) The Committee received a report on recent updates and information from the External Auditor, Grant Thornton UK LLP.

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

11. External Auditor Appointment from 2018/19

(Item 14)

(1) The Committee received a report providing recent updates and information from the External Auditor, Grant Thornton UK LLP.

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

12. Internal Audit and Counter Fraud Progress Report

(Item 15)

(1) The Head of Internal Audit summarised the outcome of Internal Audit and Counter Fraud activity for the 2017/18 financial year to date. He drew attention to the table in paragraph 15 of the report which showed that only 2% of the 105 agreed actions for implementation had made no substantive progress.

(2) RESOLVED to acknowledge and welcome the work undertaken by Internal Audit; to approve the amendments to the audit and counter fraud plan set out on Appendix B to the report and to note:-

- (a) progress and outcomes against the 2017/18 Audit Plan;
- (b) progress and outcomes in relation to Counter Fraud activity;
- (c) Management's performance in implementing agreed actions from previous audits;
- (d) achievement against the Internal Audit and Counter Fraud Key Performance Indicators; and
- (e) the overall assurance 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.

EXEMPT ITEMS

(Open access to Minutes)

(Members resolved under Section 100A of the Local Government Act 1972 that the public be excluded for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraphs 3 and 5 of Part 1 of Schedule 12A of the Act.)

13. Internal Audit and Counter Fraud Progress Report - Exempt Items

(Item 18)

(1) The Head of Internal Audit summarised the outcomes audits which were exempt items due to their commercial confidentiality or content. These reports were Property Income and Management; Learning the Lessons from LATCOs; emerging findings from the review of a substantial domiciliary care provider.

(2) The Director of Infrastructure tabled an Action Plan which responded to the issues raised in the Property Income and Management audit.

(3) RESOLVED that:-

(a) the appropriate Cabinet Committee be strongly recommended to examine the issues raised in respect of the Property Income and Management audit; and

(b) regular update reports on progress in respect of the above audit be submitted to future meetings of the Committee.

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By: Nick Chard, Chairman of Governance and Audit Committee
 Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 24th April 2018

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 2019. 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. A development programme has been agreed by the Committee and the topic scheduled for today on "internal and external audit planning and sources of

assurance” has been deferred until the July meeting due to the potential length of today’s agenda with the consideration of trading accounts. .

7. Members can, of course, request alternative or additional training if they wish, via the Chairman.

Recommendations

8. 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-18	Jul-18	Oct-18	Jan-19	Apr-19
Secretariat						
Minutes of last meeting	Andrew Tait	✓	✓	✓	✓	✓
Work Programme	Robert Patterson	✓	✓	✓	✓	✓
Member Development Programme	Robert Patterson	✓	✓	✓	✓	✓
Risk Management and Internal Control						
Corporate Risk Register	Mark Scrivener		✓		✓	
Review of the Risk Management Strategy, Policy and Programme	Mark Scrivener				✓	
Report on Insurance and Risk Activity	Lee Manser			✓		
Treasury Management quarterly report/six monthly review	Alison Mings	✓		✓	✓	✓
Treasury Management Annual Review	Alison Mings		✓			
Ombudsman Complaints	Pascale Blackburn-Clarke			✓		
Annual Complaints & Customer Feedback Report	Pascale Blackburn-Clarke			✓		
Update on Savings Programme / Transformation Programme	Andy Wood		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	Mark Rolfe		✓			
Corporate Governance						
Update on Development of Management Guides	David Whittle					
Annual review of Terms of Reference of G & A	Robert Patterson Ben Watts		✓		✓	
Debt Management	Andrea Hanson		✓		✓	
Annual review of the Council's Code of Corporate Governance	Benjamin Watts		✓			
LATCo Policies (When required)	Andy Wood					

Committee Work Programme

Appendix 1

Category Item	Owner	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19
Internal Audit and Counter Fraud						
Internal Audit and Counter Fraud Progress Report	Robert Patterson	✓		✓	✓	✓
Schools Audit Annual Report	Yvonne King		✓			
Internal Audit and Counter Fraud Annual Report	Robert Patterson		✓			
Internal Audit Strategy and Annual Plan	Robert Patterson	✓				✓
Review of the Anti-Fraud and Corruption Strategy (part of progress report)	Robert Patterson			✓		
Review of Anti-Money Laundering Policy (part of progress report)	Robert Patterson			✓		
External Audit (provided by Grant Thornton)						
External Audit Update	Robert Patterson	✓	✓	✓	✓	✓
External Audit Findings Report/Value for Money and Annual Audit Letter	Robert Patterson		✓	✓		
Pension Fund Audit Findings Report	Robert Patterson		✓			
External Audit Certification of Claims and Returns Report	Robert Patterson	✓				✓
Effectiveness of Internal and External Audit Liaison	Robert Patterson				✓	
External Audit Plan	Robert Patterson	✓				✓
External Audit Pension Fund Plan	Robert Patterson	✓				✓
External Audit Fee letter and / or procurement arrangements	Robert Patterson				✓	
External Audit Fraud, Law & Regulations & Going Concern Considerations	Andy Wood	✓				✓
Financial Reporting						
Statement of Accounts & Annual Governance Statement	Andy Wood		✓			
Revised Accounting Policies	Cath Head	✓				✓
Review of Financial Regulations	Emma Feakins	✓				✓
Review of Companies which KCC has an Interest						

By: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 24th April 2018
Subject: **Internal Audit and Counter Fraud Plan 2018-19**
Classification: Unrestricted

Summary: This report details the proposed Internal Audit and Counter Fraud Plan for 2018-19 as well as the Audit Charter underlying the plans and practice of the KCC audit team.

FOR DECISION

Introduction

1. This report sets out the outline Internal Audit and Counter Fraud Plan for 2018-19 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 2018-19 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 previous audit issues

Development of the Internal Audit and Counter Fraud Plan

5. The plan in Appendix 1 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
 - Pro active fraud work
 - Integrating our work with other assurance providers across the /Council ranging from commissioning to safeguarding.
6. In relation to the planning and delivery of dedicated IT audit projects, we have a separate but integrated plan agreed with BDO, our outsourced provider. With the planned creation of the BSC LATCO during 2018 a proportion of this assurance work will in future be reported to this body.
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. The plan has been divided into 64 Priority 1 and 24 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.
9. In addition to the core assurance work the 'big themes' for 2018/19 will be:
- Independent assurance over developer contributions (this was carried forward from 2017/18 owing to the delay in the setup of new IT system)
 - Reviews of the continuing delivery of planned savings and outcomes from selected transformation and efficiency programmes
 - Reviews of the selected themes around the new commissioning arrangements
 - In tandem with the above, a review of the management of the domiciliary care market
 - Controls surrounding partnership arrangements
 - A wholesale review of direct payments systems with a slant on counter fraud controls
 - Special Educational Needs including home to school transport
 - Quality of adult social care and Children's safeguarding
 - Assurance relating to the delivery of GDPR compliance

- Top level governance review of the new combined Children, Young People and Education Directorate

10. Excluded from Appendix 1 are:

- Internal audit coverage of the KCC's current and future LATCo's, more particularly Commercial Services, GEN2, Invicta Law, BSC and the Education People where we are, or will be, the appointed internal auditor
- Income generating and shared service work with Tonbridge and Malling Borough Council, 'Mytimeactive', Kent Fire and Rescue, Parish Councils and audits of selected grants. We have also gained substantive work in providing GDPR assurance work for an increasing number of academies. As such for 2018/19 it is estimated that nearly a quarter of our resource (and turnover) is now derived from arm's length or independent organisations.
- Detail relating to the thematic audits of establishments
- On-going advice and 'watching briefs' on Council initiatives and selected change programmes

11. 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

12. Overall we have a total productive audit and counter fraud resource of 3,060 days. After deduction work for arm's length LATCO's and independent organisations there is a remaining resource of 2,134. days dedicated to KCC assurance work. This includes additional counter fraud resource approved by the in March 2018 by the Corporate Management Team (CMT), following increasing fraud referrals.

13. In addition, the planned audit resource will be inevitably reduced further by any unplanned special audit investigations).

14. The approved net base budget for the unit for 2018/19 is £ 778,000 which is a 3.5% reduction on the previous year. This is the spend solely dedicated to KCC work and assurance. This figure does not include the new counter fraud post agreed by CMT in April 2018.

15. Against the net expenditure, should be placed fraud and value for money recoveries and savings.

The Internal Audit Charter

16. Our internal audit charter is the formal document that defines the purpose, authority and responsibility of internal audit and its position within the organisation. It is basically the key terms of reference for the audit function and it is important that it is periodically reviewed and approved by the governance and Audit Committee.

17. With a new Committee effectively created after May last year, now would be timely to undertake such a review. Attached in Appendix 2 is the Audit Charter.

Recommendations

18. Members are asked to:

Agree the proposed Internal Audit and Counter Fraud Annual Plan for 2018-19

and

Approve the Internal Audit Charter

Appendices

Appendix 1 Internal Audit and Counter Fraud Plan 2018-19

Appendix 2 Internal Audit Charter

Robert Patterson
Head of Internal Audit
(03000 416554)



Kent County Council

Internal Audit and Counter Fraud Plan

April 2018 - March 2019

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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 2018-19 . 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
- 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.

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4 Constructing the Plan

4.1 In drawing up the plan of activities for 2018/19 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 2017/18

- 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 The plans incorporate the work of our specialist ICT coverage with our outsourced ICT audit provider, BDO LLP.

4.3 Separate plans have also been developed for coverage of current or emerging arm's length operations owned by KCC such as Commercial Services, GEN2 and Invicta Law. It is envisaged that plans detailing proposed coverage for the BSC and 'Education People' LATCO's will be developed in due course.

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 for 2018/19 against governance processes, key critical financial and non-financial systems as well as assurance towards corporate risks. Figure 2 maps other work against the corporate KCC risks agreed in January 2018.

Figure 1- Integrated Internal Audit and Counter Fraud Plan 2018/19 – Governance and Core Systems

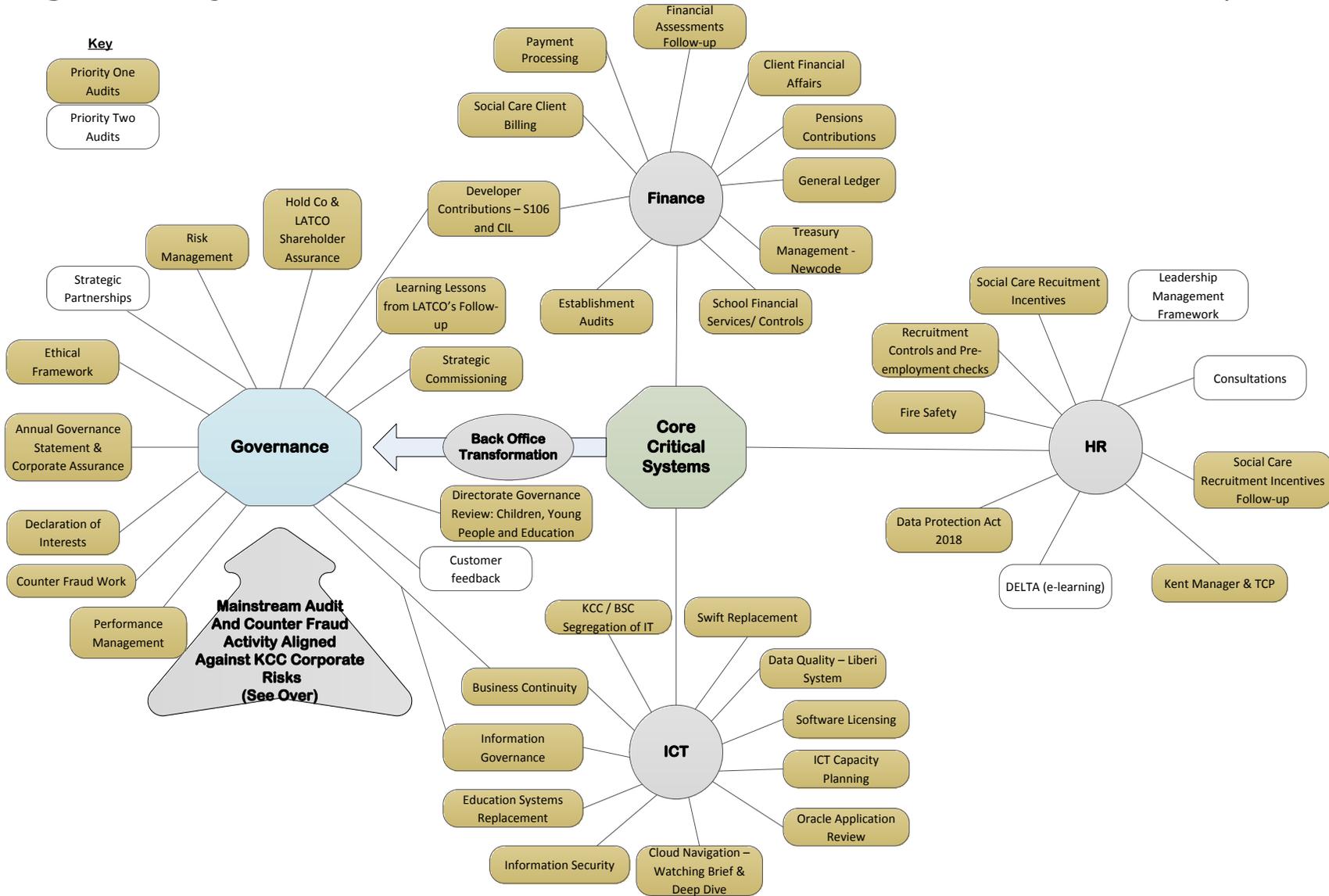
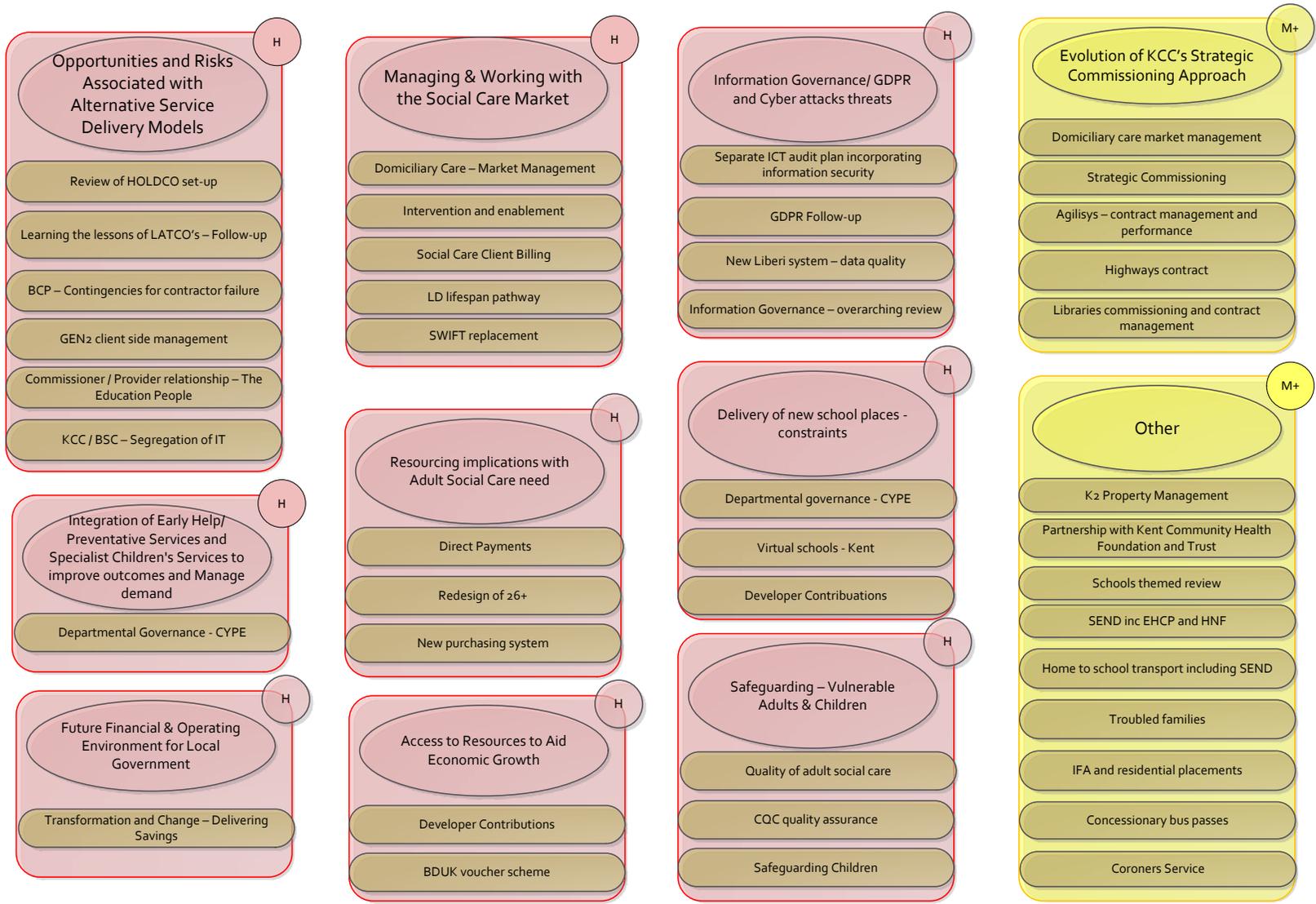


Figure 2 - Internal Audit and Counter Fraud work mapped against current corporate risks (Priority 1 audits only)



- 5.3 In total the plan has been divided into 64 Priority 1 and 24 Priority 2 audits and with an associated target of completing 90% 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

- 6.1 The plan contains a resource of 3,060 productive audit and counter fraud days, inclusive of the ICT audit contract. After deducting LATCO and fee earning work there is approximately 2150 days available for 'core' KCC audit coverage.

- 6.2 The approved net base budget for 2018/19 is £778,000, a 3.5% reduction on the previous year. This is the spend solely dedicated to KCC assurance work. This base will now be adjusted for the additional counter fraud post that has been agreed for the unit. Against this net expenditure should be placed fraud and value for money savings and recoveries.
- 6.3 The section is resourced on a 'hybrid' basis, being a mix of 19 FTE in-house staff, 1 FTE contractor staff and approximately 125 outsourced days provided by BDO for ICT audit work.
- 6.4 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.

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

8 In Conclusion

- 8.1 Through the 2018/19 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 2018 – March 2019

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 2019	Annual Governance Statement	15	1	Q4	Annual assurance audit covering the processes and controls in place to produce the council's Annual Governance Statement for 2017/18.	<p>Authority Wide</p> <p>David Cockburn <i>Corporate Director Strategic & Corporate Services</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA02 2019	Developer Contributions – S106 and CIL	25	1	Q3	To provide assurance that developer contributions (Section 106 and CIL) are being appropriately identified, collected and utilised across the council. To include an assessment of the use and effectiveness of the new authority-wide system implemented in 2017/18 to manage developer contributions.	<p>Authority Wide</p> <p>David Cockburn <i>Corporate Director Strategic & Corporate Services</i></p> <p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>David Smith <i>Director of Economic Development</i></p> <p>Keith Abbott <i>Director - Education Planning and Access</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA03 2019	Ethical Framework	40	1	Q2	A holistic assessment of the ethical culture across the council, drawing information from a number of areas such as decision making, declarations of interest, codes of conduct, equalities and staff wellbeing, etc.	<p>Authority Wide</p> <p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA04 2019	Directorate Governance Review – Children, Young People and Education	50	1	Q3	A review of the effectiveness of governance arrangements in the Children, Young People and Education directorate. This is part on a rolling programme of governance audits across the council, now entering its fourth year.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p>
CA05 2019	Corporate Governance	20	1	Q4	An annual review of corporate governance across the council, drawing information from the audit work completed in the 2018/19 year to provide an overall opinion on key aspects of governance and control. The outcomes of this audit will inform the Head of Internal Audit's annual audit opinion, and feed into the Annual Governance Statement.	<p>Authority Wide</p> <p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p> <p>Denise Fitch <i>Democratic Services Manager</i></p>
CA06 2019	Risk Management	25	1	Q3	Annual audit of Risk Management in the council, including a deep dive into one division/ directorate (area of focus to be determined).	<p>Authority Wide</p> <p>David Cockburn <i>Head of Paid Service</i></p> <p>David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i></p> <p>Mark Scrivener <i>Corporate Risk Manager</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA07 2019	Data Protection Act 2018 (incorporating GDPR)	30	1	Q3	An audit of the council's compliance with the new Data Protection Act 2018, which brings into force the requirements of the General Data Protection Regulations. This audit will include a deep dive into the processes in place to manage Freedom of Information (FOI) requests to ensure that they are appropriately responded to within the prescribed time scales.	Authority Wide David Cockburn <i>Head of Paid Service</i> Ben Watts <i>General Counsel</i>
CA08 2019	Business Continuity Planning	20	1	Q3	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 this year's audit will focus on how the council would respond to the failure of a major contractor.	Authority Wide Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> Katie Stewart <i>Director Environment, Planning and Enforcement</i>
CA09 2019	Data Quality – Liberi system	20	1	Q2	Cyclical audit of data quality processes for key systems to focus on the Liberi system. To include arrangements to ensure the on-going accuracy of sensitive children's data.	Matt Dunkley <i>Corporate Director of Children, Young People and Education</i> Katherine Atkinson <i>Head of Information and Intelligence</i>
CA10 2019	Information Governance	15	1	Q4	An annual audit of the council's self-assessment of compliance with the NHS Information Governance Toolkit. Reaching a satisfactory level of compliance with all aspects of the Toolkit is required to continue to access NHS data.	David Cockburn <i>Head of Paid Service</i> Ben Watts <i>General Counsel</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA11 2019	Strategic Commissioning	40	1	Q3	<p>A review of the outcomes from the recently introduced Strategic Commissioning team. To include:</p> <ul style="list-style-type: none"> • Adequacy and effectiveness of the support provided to services undertaking all forms of commissioning and procurement • an assessment of the clarity of roles and responsibilities for delivery of commissioned services and • the new tactical procurement team. 	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Vincent Godfrey <i>Strategic Commissioner</i></p>
CA12 2019	Declarations of Interest	10	1	Q1	<p>A 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.</p>	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA13 2019	Transformation and Change 0-25	25	1	Q4	<p>To provide assurance that transformation and change programmes are delivering sustainable savings and realising planned benefits/outcomes. This audit will involve review of the integration of Early Help and Specialist Children's Services including the new 'Front Door' process.</p>	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p> <p>Stuart Collins <i>Director of Early Help and Preventative Services</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA14 2019	Learning the Lessons from LATCos Follow Up	10	1	Q4	A follow-up audit to assess the effectiveness of management actions taken in response to the issues raised in our 2017/18 audit 'Learning the Lessons of LATCos'.	<p>Authority Wide</p> <p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p> <p>Andy Wood <i>Corporate Director of Finance</i></p> <p>Amanda Beer <i>Corporate Director of Engagement, Organisation Design and Development</i></p>
CA16 2019	Performance Management	20	2	TBC	An audit of the processes and key controls in place to monitor and report on the council's key performance indicators.	<p>Authority Wide</p> <p>David Cockburn <i>Head of Paid Service</i></p> <p>Emma Mitchell <i>Director of Strategic Business Development and Intelligence</i></p> <p>Richard Fitzgerald <i>Business Intelligence Manager</i></p>
CA17 2019	Hold Co watching brief	12	2	Ongoing	A 'watching brief' over the development of the Hold Co restructuring and revised governance arrangements for the council's trading companies.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
CA18 2019	Strategic Partnerships	15	2	TBC	A review of arrangements to identify and manage the council's strategic partnerships to ensure that they deliver the intended outcomes for service users.	<p>Authority Wide</p> <p>David Cockburn <i>Head of Paid Service</i></p> <p>David Whittle <i>Director Strategy, Policy, Relationships and Corporate Assurance</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA19 2019	Customer Feedback	20	2	TBC	Audit of arrangements to record and respond appropriately to customer feedback in line with the Customer Feedback Policy – with focus on complaints handling and the use of customer feedback to shape service delivery.	<p>Authority Wide</p> <p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Diane Trollope <i>Head of Engagement & Consultation</i></p>
	Total days	412				

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 2019	Payments Processing	30	1	Q1	An audit to provide assurance over the adequacy and effectiveness of controls over the processing of payments made by the council. To include both Accounts Payable and iProc payments.	<p>Andy Wood <i>Corporate Director of Finance</i></p> <p>Cath Head <i>Head of Finance (Operations)</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Mark Scott <i>Head of Business Service Centre</i></p>
CS02 2019	Schools Financial Services – school compliance visits	10	1	Q4	<p>Annual audit of the system of school compliance visits to provide assurance over the system of school audit.</p> <p>Note – this service is expected to be part of the Education People LATCo by the time of the audit, but assurance is required for KCC.</p>	<p>Andy Wood <i>Corporate Director of Finance</i></p> <p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Keith Abbott <i>Director - Education Planning and Access</i></p> <p>Siobhan Cheeseman <i>Head of Schools Financial Services</i></p>
CS03 2019	Pensions Contributions	15	1	Q2	A review of the key financial controls over pension contributions to provide assurance over the completeness and accuracy of contributions received by the Treasury and Investments team. To cover both KCC and district council contributions to the Kent Fund.	<p>Andy Wood <i>Corporate Director of Finance</i></p> <p>Dave Shipton <i>Head of Finance (Policy, Planning & Strategy)</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer
CS04 2019	Client Financial Affairs	20	1	Q2	An audit of the procedures and controls over the council's management of the financial affairs of service users who are not able to manage their own.	Andy Wood <i>Corporate Director of Finance</i> Cath Head <i>Head of Finance (Operations)</i>
CS05 2019	Social Care Client Billing	30	1	Q2	To provide assurance that the bills raised to individuals for their domestic or residential care are accurate and that appropriate recovery action is taken in instances of non-payment.	Andy Wood <i>Corporate Director of Finance</i> Cath Head <i>Head of Finance (Operations)</i>
CS06 2019	Financial Assessments Follow Up	10	1	Q1	A follow-up audit to assess the adequacy of actions taken to address the issues raised in our 2016/17 audit of Financial Assessments.	Andy Wood <i>Corporate Director of Finance</i> Cath Head <i>Head of Finance (Operations)</i>
CS07 2019	Treasury Management	15	1	Q4	An audit of treasury management controls, to ensure that the council's funds are robustly controlled in line with the Treasury Management Policy and that there is appropriate and timely reporting to Members.	Andy Wood <i>Corporate Director of Finance</i> Dave Shipton <i>Head of Finance (Policy, Planning & Strategy)</i>
CS08 2019	General Ledger	20	2	TBC	A cyclical review of controls over Oracle General Ledger transactions, including journals, feeder systems, suspense accounts, flexfield information and bank reconciliations.	Andy Wood <i>Corporate Director of Finance</i> Cath Head <i>Head of Finance (Operations)</i> Rebecca Spore <i>Director of Infrastructure</i> Mark Scott <i>Head of Business Service Centre</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 2019	K2 Property Management System	25	1	Q3	An audit of the operation of the K2 Property system following remedial work to update the system configuration and address data inaccuracies. We will also carry out a 'deep dive' review of the property income management process to gain assurance that the changes to the K2 system have resulted in improved control in this area.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i> Karen Ripley <i>Head of Property</i>
RB02 2019	Property Statutory Compliance	20	1	Q2	A holistic review of the management of property statutory compliance, to provide assurance that the council is appropriately discharging its responsibilities as corporate landlord.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i> Karen Ripley <i>Head of Property</i>
RB03 2019	Fire Safety	15	1	Q4	An audit of the management and progress being made with the council's Fire Safety action plan, developed in response to the issues raised by the Grenfell fire in 2017.	David Cockburn <i>Head of Paid Service</i> Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i> Flavio Walker <i>Head of Health and Safety</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB04 2019	Business Service Centre - service delivery during change	15	1	Q2	To provide assurance that the Business Service Centre continues to deliver 'business as usual' core services to the council whilst preparing for and commencing operation as a LATCo.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i>
RB05 2019	Client-Side Relationship Management of GEN2	30	1	Q4	An audit of the adequacy and effectiveness of the council's management of the GEN2 relationship, to ensure that services commissioned through GEN2 are delivered to the contracted standards. This will include a review of the arrangements in place to manage the TFM contracts through GEN2.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i> Ros Adby <i>Head of Business Partnerships and Relationships</i>
RB06 2019	Recruitment Controls and Pre-employment Checks	20	1	Q1	To provide assurance over recruitment and pre-employment checks carried out for new council staff. This will include an assessment of the adequacy of vetting procedures and checks on employment history, qualifications and identity.	Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i> Rebecca Spore <i>Director of Infrastructure</i> Mark Scott <i>Head of Business Service Centre</i> Paul Royel <i>Head of HR and OD</i>
RB07 2019	Key Decision Process	15	1	Q3	An audit of the adequacy and effectiveness of controls over council key decisions, to ensure that they are documented, consulted on where appropriate and taken by those with authority to do so.	David Cockburn <i>Head of Paid Service</i> Ben Watts <i>General Counsel</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB08 2019	Kent Manager	15	1	Q3	A review of the effectiveness of the revised Kent Manager scheme, introduced in Q1 2018/19.	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Julie Cudmore <i>Head of Organisation Development</i></p>
RB09 2019	Social Care Recruitment Incentives - Follow Up	15	1	Q2	A follow-up audit to establish whether the agreed management actions from our 2016/17 audit of social care recruitment incentives have been implemented to address the issues identified.	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p>
RB10 2019	Agilisys Contract Management	20	1	Q2	An audit of the adequacy and effectiveness of the arrangements to manage the Agilisys contract (providing contact centre and external communications services), including performance management through KPIs and the accuracy of payments made for contracted services.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Vincent Godfrey <i>Strategic Commissioner</i></p>
RB11 2019	Public Health - Partnership with Kent Community Health Foundation Trust	25	1	Q3	The audit will focus on partnership governance, including monitoring and reporting processes, to provide assurance on delivery of required outcomes and benefits realisation through a new delivery model, including efficiencies where relevant.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Vincent Godfrey <i>Strategic Commissioner</i></p> <p>Andy Scott-Clark <i>Director of Public Health</i></p>
RB12 2019	Consultations	20	2	TBC	To provide assurance that the legislative requirements for consultation with service users and other stakeholders are adhered to and that feedback is appropriately considered.	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Diane Trollope <i>Head of Engagement & Consultation</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB13 2019	Leadership Management Framework	15	2	TBC	A review of the impact and outcomes from the newly developed Leadership Management Framework.	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Paul Royel <i>Head of HR and OD</i></p> <p>Julie Cudmore <i>Head of Organisation Development</i></p>
RB14 2019	DELTA System (e-Learning)	15	2	TBC	An audit of the take-up of e-learning through the DELTA system and an assessment of the adequacy of actions taken to encourage staff participation, particularly for mandatory training and essential courses for those in particular roles (such as safeguarding for those in customer facing roles).	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Julie Cudmore <i>Head of Organisation Development</i></p>
RB15 2019	Succession Planning	15	2	TBC	<p>An audit of the adequacy of succession planning for key roles across the council. To include</p> <ul style="list-style-type: none"> • identification of key roles • identification of 'successors' and • actions taken to develop staff for specific key roles 	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Paul Royel <i>Head of HR and OD</i></p>
RB16 2019	TCP Revised Approach	20	2	TBC	A review of the impact and outcomes from the revised TCP process aimed at delivering a new approach to managing and supporting performance through good conversations that are regular, broad ranging and seek feedback on what managers could do better. Given the recent implementation and to allow review of a full circuit, this audit may be undertaken in quarter one of 2019/20.	<p>Amanda Beer <i>Corporate Director Engagement, Organisation Design & Development</i></p> <p>Paul Royel <i>Head of HR and OD</i></p> <p>Julie Cudmore <i>Head of Organisation Development</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB17 2019	Public Health - Clinical Professional Development	20	2	TBC	To provide assurance on compliance with and impact of the new requirements stated in the recent publication by the Local Government Association - The Standards for employers of public health teams in England. The purpose of the Standards is to enable employers to provide a well-led and supportive professional environment both enabling public health professionals to maintain their professionalism and to achieve and sustain high quality public health outcomes for local populations.	David Cockburn <i>Head of Paid Service</i> Vincent Godfrey <i>Strategic Commissioner</i> Andy Scott-Clark <i>Head of Public Health</i>
RB18 2019	Infrastructure commissioning and contract management	20	2	TBC	A review of the arrangements in place to manage commissioned services within Infrastructure, including the management of key contracts.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
3.2 Adult Social Care and Health						
RB19 2019	Home Care	25	1	Q2	The scope of this review will be determined to ensure alignment to the contract re-let and is likely to include market engagement and development, impact of recruitment difficulties, performance monitoring, accuracy of charging and provision of safe services. Following work undertaken in 2017/18 on one provider the risk of call clipping will be considered more broadly.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i> Anne Tidmarsh <i>Director of OPPD</i>
RB20 2019	LD Lifespan Pathway Post Implementation	25	1	Q2	Following consultancy work undertaken pre-implementation of the integrated Learning Disability Lifespan Pathway, this audit will provide assurance on delivery of safe services, improved outcomes arising from the removal of the need to transition from children to adults' services and delivery of efficiencies where relevant.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i>
RB21 2019	Intervention and Enablement	30	1	Q3	Demand Management is considered to be a key risk and is rated red on the corporate risk register. Several controls have been proposed to mitigate this risk focussing on early intervention and enablement, including community initiatives, the Kent Enablement at Home Service and Community Equipment. This audit will provide assurance on the effectiveness of those controls to manage risks in relation to increased demand through both greater numbers entering the care service and the complexity of needs. Given the latter the audit will include assurance on the service's response to the need for staff with the right skills to meet those needs.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i> Anne Tidmarsh <i>Director of OPPD</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB22 2019	Quality of Adult Social Care	25	1	Q4	To provide assurance that adequate processes exist by means of a quality assurance framework to monitor and develop, through lessons learnt, quality in care and quality of practice aiming to ensure delivery of safe, quality, person centred care to all adult service users in Kent.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i> Anne Tidmarsh <i>Director of OPPD</i>
RB23 2019	Integration of Enablement and Intermediate Care (NHS)	12	1	Ongoing	A consultancy review to provide advice and support on the integration of social care enablement services and NHS intermediate care. As with the LD pathway above it is intended that a post-implementation review will be undertaken for assurance purposes, this is likely to be in 2019/20.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i> Anne Tidmarsh <i>Director of OPPD</i>
RB24 2019	Purchasing Finance Process	12	1	Q2	A consultancy review to provide advice and support on the development of new authorisation processes for the procurement of care packages.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i> Anne Tidmarsh <i>Director of OPPD</i>
RB25 2019	CQC / Quality Assurance	12	1	Q1	A consultancy review to provide advice and support to the development of pre-inspection processes through development of a self-assessment framework and assisting on review of supporting evidence, to allow gap analysis and identify areas for development before the CQC inspection regime that is anticipated is implemented.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i> Michael Thomas-Sam <i>Head of Strategy and Business Support, Adult Social Care</i>
RB26 2019	Transformation / Modernising Adult Social Care Services	25	1	Q3	To provide assurance on the development of a new core business model designed to modernise services and the achievement of savings over a two-year period.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB27 2019	Direct Payments – Adults	40	1	Q2	To provide assurance that risks in relation to the award, administration and monitoring of Direct Payments to adults are adequately managed. This will include risks in relation to financial abuse.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i>
RB28 2019	Swift Replacement	15	1	Ongoing	A watching brief through attendance at working groups and review of key documentation to provide advice and support to the implementation of the Mosaic system, the replacement to Swift. The review will include assurance where relevant at key stages and supplements the IT audit at xxx	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i>
RB29 2019	Redesign of 26+	12	2	TBC	A consultancy review to provide advice and support on the redevelopment of 26+ services in adult learning disability and mental health services. As with the LD pathway above it is intended that a post-implementation review will be undertaken for assurance purposes, this is likely to be in 2019/20.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i>
RB30 2019	KCC / KMPT Consultancy on review of S75	12	2	TBC	Consultancy work to provide advice and support on the review of the existing Section 75 agreement with the Kent and Medway Partnership Trust. As with the LD pathway above it is intended that a post-implementation review will be undertaken for assurance purposes, this is likely to be in 2019/20.	Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
3.3 Children, Young People and Education						
RB31 2019	Special Educational Needs and Disability Incl. Education, Health and Care Plans & Higher Needs Funding	30	1	Q2	To provide assurance that EHC Plans are in place for all relevant children and young people in line with statutory deadlines and that these are subject to adequate processes for both assessment of need and monitoring of provision with financial contributions defined and paid timely. In addition, recognising budget pressures in relation to Higher Needs Funding, the review will provide assurance on the application and monitoring process to ensure awards are appropriate and utilised as intended.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Keith Abbott <i>Director of Education, Planning and Access</i></p>
RB32 2019	Education Psychology	20	1	Q2	To provide assurance that appropriate actions are being taken to manage risks in relation to provision of the service given national difficulties in relation to recruitment and retention of qualified staff and increasing demand.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Keith Abbott <i>Director of Education, Planning and Access</i></p>
RB33 2019	Schools Themed Review	50	1	Q3	Cyclical review of a key risk area to provide assurance and supplement the work of Schools Financial Services compliance visits. The focus for 2018/19 is proposed to be either Information Governance, due to the new requirements of the General Data Protection Regulations, or Safeguarding as an ongoing key risk area. The scope will be confirmed with the Directorate before visits commence.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Keith Abbott <i>Director of Education, Planning and Access</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB34 2019	Home to School Transport incl. SEND	25	1	Q3	An audit of the processes and key controls over Home to School Transport arrangements, including: <ul style="list-style-type: none"> • assessment of transport needs • actions taken to fulfil these needs • Safeguarding of children and young people using the service • management of Home to School Transport contracts • communication between the various council teams to ensure that service is delivered seamlessly 	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Keith Abbott <i>Director Education Planning & Access</i></p> <p>Roger Wilkin <i>Director of Highways, Transportation & Waste</i></p>
CA13 2019	0-25 Transformation	25	1	Q4	See CA13 2019 above, included here for line of sight.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p>
RB35 2019	Commissioner / Provider relationship – The Education People	20	1	Q4	To provide assurance that KCC as Commissioner have adequate governance and monitoring processes in place to ensure we are receiving an appropriate level of service and that The Education People are delivering to the required standard.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Keith Abbott <i>Director of Education, Planning and Access</i></p> <p>Vincent Godfrey <i>Strategic Commissioner</i></p>
RB36 2019	Safeguarding Children	25	1	Q2	To provide assurance on the adequacy and effectiveness of quality assurance processes, including case file review, to ensure key safeguarding risks are managed and lessons are learnt.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB37 2019	Residence Arrangements – IFA and Residential Placements	25	1	Q3	To provide assurance that adequate and effective processes are in place to manage risks in relation to placements with IFAs and residential establishments including that placements are appropriate, safe and that value for money is obtained.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p>
RB38 2019	Troubled Families	10	1	Q3	<p>A high-level review of the Troubled Families process to provide assurance that families are appropriately identified with relevant actions taken to improve lives and outcomes for those families.</p> <p>This is dependent upon the results of KCC's application to be a pilot authority receiving upfront funding rather than Payment by Results (PbR).</p>	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Stuart Collins <i>Director of Early Help and Preventative Services</i></p>
RB39 2019	Troubled families Returns	30	2	TBC	Time to allow review of returns to support claims of families that have been turned around and secure PbR if required.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Stuart Collins <i>Director of Early Help and Preventative Services</i></p>
RB40 2019	Youth Justice / Adolescent Services	20	2	TBC	To provide assurance that adequate processes exist to ensure compliance with statutory requirements in relation to Youth Justice and that Adolescent Services achieve required outcomes and provide value for money where services are outsourced. The scope will be further refined dependent on the outcome of the current integration of Early Help and Preventative Services and Specialist Children's Services.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Stuart Collins <i>Director of Early Help and Preventative Services</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB41 2019	Foster Care	20	2	TBC	To replace the audit deferred from 2017/18 following the positive OFSTED outcome. The audit will provide assurance on recruitment of foster carers to minimise the need for placement through Independent Fostering Agencies at a greater cost than in-house provision, particularly where complex needs require Foster Carers with appropriate skills to take on more challenging placements.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p>
RB42 2019	Virtual Schools Kent	15	2	TBC	To provide assurance that that appropriate actions are taken to mitigate the risk of poor educational performance in Looked After Children.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p>
RB43 2019	Adoption	20	2	TBC	To provide assurance on the new model of deliver through the proposed Regional Adoption Agency, including delivery of anticipated benefits.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p>
RB44 2019	Care Leavers	20	2	TBC	To provide assurance on new requirements defined in the Children and Social Work Act 2017. Given that this legislation is relatively new, the audit may be undertaken in quarter one of 2019/20.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Interim Director of Specialist Children's Services</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
3.4 Growth, Environment and Transport						
RB45 2019	Concessionary Bus Passes	15	1	Q2	To ensure that the processes and controls for issuing of new and replacement concessionary bus passes are adequate and effective.	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Roger Wilkin <i>Director of Highways, Transportation & Waste</i></p>
RB46 2019	Coroners Service – Financial Controls	15	1	Q1	A review to provide assurance over the robustness of the key financial controls in the Coroners service.	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>Katie Stewart <i>Director Environment, Planning and Enforcement</i></p> <p>Andy Wood <i>Corporate Director of Finance</i></p>
RB47 2019	BDUK Watching Brief	6	1	Ongoing	Ongoing audit engagement in the management of the contract with BT for BDUK, including assurance over the controls in place to ensure that the major payments made are accurate.	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>David Smith <i>Director Economic Development</i></p> <p>Andy Wood <i>Corporate Director of Finance</i></p>
RB48 2019	BDUK Voucher Scheme	15	1	Q2	An assessment of the controls in place over the new BDUK voucher scheme, to ensure that funds are appropriately managed and that the scheme delivers broadband connectivity to Kent residents who meet the set criteria.	<p>Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i></p> <p>David Smith <i>Director Economic Development</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Lead Officer(s)
RB49 2019	Libraries Contract Management	15	1	Q3	An audit of contract management within the Libraries service, with focus on the controls in place to ensure that all contracts are identified, contracted services are managed in line with agreed performance indicators, payments made under the contracts are accurate and that services are re-commissioned in a timely manner as contracts come to an end.	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> James Pearson <i>Head of Libraries</i>
RB50 2019	Carbon Reduction Commitment (CRC) Annual Return	6	2	TBC	To provide assurance that the annual CRC return is completed accurately and that the payments made for CO2 emissions by the council are correct.	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> Katie Stewart <i>Director Environment, Planning and Enforcement</i>
RB51 2019	Highways Contract – Amey	20	2	TBC	An audit of contract management for the Amey Highways Maintenance contract. To provide assurance that controls are in place to ensure that the service is delivered in line with the contract and that the payments made for contracted services are accurate and timely.	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> Roger Wilkin <i>Director of Highways, Transportation & Waste</i>
RB52 2019	Open Plus System	12	2	TBC	A review of the operation of the Open Plus system for unmanned libraries, including the assessment of the pilot libraries and the lessons learned from this exercise.	Barbara Cooper <i>Corporate Director Growth, Environment & Transport</i> James Pearson <i>Head of Libraries</i>
	Total Days all Risk Based	1,019				

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 2019	Oracle Application Review	15	1	Q1	To provide assurance that the processing and security controls within the Oracle application are robust.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy & Commissioning</i></p>
ICT02 2019	Cloud Navigation – Project Milestone Deep Dive	20	1	Q3	At key milestones for the Cloud Navigation programme or for a specific project within the programme, a pre-implementation audit will be performed to provide assurance as to the work that has been completed. This will focus on Phase 2 of the Programme.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy & Commissioning</i></p>
ICT03 2019	Cloud Navigation – Audit Watching Brief	5	1	Ongoing	Internal audit will engage with the Programme Board and attend where necessary to provide ongoing support and assurance.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy & Commissioning</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Corporate Director & Lead Officer
ICT04 2019	Education Systems Replacement	20	1	Q3	A post-implementation review of the project to replace the Council's education systems, with an emphasis on the controls over migration of data from the existing systems.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy & Commissioning</i></p>
ICT05 2019	Software Licensing	15	1	Q4	This audit will review the arrangements that are in place for managing the Council's compliance with its software licensing obligations.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy & Commissioning</i></p>
ICT06 2019	Swift Replacement	20	1	Q3	To provide assurance that there are appropriate arrangements in place for the deployment of the replacement for the Swift application.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Penny Southern <i>Interim Corporate Director of Adult Social Care and Health</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Michael Lloyd <i>Head of Technology Strategy & Commissioning</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope	Corporate Director & Lead Officer
ICT07 2019	KCC / BSC Segregation of IT	15	1	Q3	To assess the extent to which appropriate actions have been taken to segregate the Council from the BSC following the creation of a separate trading body.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i> Michael Lloyd <i>Head of Technology Strategy & Commissioning</i>
ICT08 2019	Information Security	20	1	Q2	To determine whether appropriate actions have been taken to secure the Council's IT network from a cyber-attack.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i> Michael Lloyd <i>Head of Technology Strategy & Commissioning</i>
ICT09 2019	ICT Capacity Planning	10	1	Q2	To assess the arrangements in place for capacity management and planning across the IT network.	David Cockburn <i>Head of Paid Service</i> Rebecca Spore <i>Director of Infrastructure</i> Michael Lloyd <i>Head of Technology Strategy & Commissioning</i>
	Total Days	140				

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 2019	Fraud awareness	30	1	Ongoing	A programme of fraud awareness training based on an authority wide training needs analysis targeting groups in high risk areas first e.g., schools, procurement and social care. To raise the level of fraud awareness and create a zero tolerance culture towards fraud and corruption.	Authority Wide Andy Wood <i>Corporate Director of Finance</i>
Fraud prevention work – to remove weaknesses that could be exploited						
CF02 2019	National Fraud Initiative (NFI)	20	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</i>
CF03 2019	Kent Intelligence Network (KIN) (incl. grants and multiple applicants?)	15	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</i>
CF04 2019	Independent review of Fraud Service	15	1	Q2/3	An independent external assessment of the fraud function to provide an opinion on adequacy of processes.	Authority Wide Andy Wood <i>Corporate Director of Finance</i>

6. Summary

Audit	Priority 1 Days	Priority 2 Days
KCC Core Assurance	345	67
KCC Core Financial Assurance	130	20
KCC Risk Based Audits	707	312
KCC IT audit plan	140	0
KCC Proactive and Reactive Counter fraud work	430	0
KCC Follow up of audits with no/limited assurance and recommendations with high/medium priority rating	40	0
KCC Liaison, advice and information and support for system/service development	50	0
Commercial Activities and other external provision		
- Establishments	38	32
- Commercial Services	175	25
- Gen2 Property	70	0
- Invicta Law	70	0
- Education People – new LATCo	40	0
- Business Service Centre – new LATCo	70	0
- Parishes	40	30
- Kent and Medway Fire & Rescue Authority	100	0
- Tonbridge and Malling District Council – Management of audit and fraud	120	0
- Grant claims other Certifications	80	0
- Schools and Academies	50	0
- My Time Active	33	0
- Other	16	0
Total Days	2744	486

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 2018/19

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 - FDivMT 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	

Appendix 2

KENT COUNTY COUNCIL Internal Audit Charter

INTRODUCTION

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

PURPOSE

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

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

AUTHORITY

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

STATUS OF INTERNAL AUDIT WITHIN THE ORGANISATION

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

The Governance and Audit Committee are responsible for ensuring Internal Audit are independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate. The Governance and Audit Committee approve the Charter every year within the Annual Audit report.

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

RESPONSIBILITY

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

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

PROFESSIONAL STANDARDS

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

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

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

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

INDEPENDENCE AND OBJECTIVITY

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

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

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

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

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

SCOPE & NATURE OF INTERNAL AUDIT

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

- Reviewing the soundness, adequacy and application of financial and other management controls;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
 - Fraud and other offences
 - Waste, extravagance and inefficient administration, poor value for money and other causes;
- Reviewing the suitability and reliability of financial and other management data developed within the organisation;
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and

internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems;

- Promote and raise awareness of fraud and corruption;
- Investigating allegations of fraud and corruption;
- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

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

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

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

FRAUD AND IRREGULARITY

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

RIGHT OF ACCESS

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

INTERNAL AUDIT RESOURCES

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

REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

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

PROVISION OF ASSURANCE TO THIRD PARTIES

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

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

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

1 QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

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

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

Signed by:

Head of Internal Audit:

Chairman of the Governance and Audit Committee

VERSION CONTROL

Document Owner: Robert Patterson, Head of Internal Audit.

Version	Reviewed/Due for Review	Reviewer	Approver	Date approved
Original				
2	23 February 15	Head of Internal Audit	Governance and Audit Committee	
3	April 2017	Head of Internal Audit	Governance and Audit Committee	

cBy: Robert Patterson – Head of Internal Audit
To: Governance and Audit Committee – 24th April 2018
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 2017/18 financial year to date.

Recommendation: FOR ASSURANCE AND DECISION

Introduction

1. This report summarises:

- The key findings from completed Internal Audit reviews (since January 2018)
- The key outcomes from completed counter fraud investigations
- Progress against the 2017/18 Internal Audit Plan and any proposed revisions
- Achievement against the Internal Audit and Counter Fraud Key Performance Indicators
- Work in progress and future plans and improvements,

Overview of Progress

2. Appendix 1 summarises the outcomes, or indicative outcomes, from the 35 completed substantive audits since the start of 2017/18. Of these audits 11 have been completed since January 2018 and are being presented in detail to this Committee.
3. In addition, we have also undertaken a review of local financial controls in 5 OPPD day care establishments together with examination of 20 schools included in our thematic review of payroll and income controls.
4. In relation to counter fraud work there have been 160 irregularities reported and investigated since the start of 2017/18, of which 100 have been concluded.
5. At the point an irregularity is referred to Internal Audit we estimate the potential value. Based on the information available at the time, we estimated the total value of all the irregularities reported to us in the year to date is £690,435.

6. As previously reported, we have been undertaking a number of significant investigations outside pre planned audit activity for both KCC and for the arms length LATCO's.
7. Appendix 2 (the Internal Audit Progress Report) details the outcomes from this work against the more significant corporate risks where it is practical for internal audit work to provide assurance against the progression of the management and mitigation of such risks
8. Towards the end of March 2018, 82% of the audit plan had been completed with the remainder underway. As such progress against the Audit Plan for 2017/18 is broadly in line to achieve the Audit Plan key performance targets (KPI's) by 31st March 2018. The detailed KPI's are also shown in Appendix 2.

Implications for Governance

9. 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.
10. The outcomes from audits produced during this quarter have been broadly positive and a contrast to the mixed outcomes from audits at the start and middle of 2017/18.
11. Strengths relate to:
 - 46% of systems and functions have been judged with 'substantial' assurance or better
 - A continuing pattern of general robustness of key financial systems. During this period the audit of revenue budget monitoring has been particularly positive
 - The two recent reviews on IT themes have resulted in positive assurance, in particular the cloud navigation programme now appears to be well managed
 - Our thematic work relating to school payroll and income controls has also been positive

12. Areas for development and improvement relate to:

- The 5 (14%) of systems / functions that have received a 'limited' or 'no' assurance in current and previous reporting periods.
- One 'limited' assurance opinion relates to contract control lapses and breaches from the 'discharge to assess' service in social care. This has highlighted the need to learn from risks created from short term emergency funding and contracts developed with partner organisations. The outcomes have already been considered by the March 2018 Contract Management Review Group

- The other limited assurance relates to the inability to verify pre-existing children's financial allowances because of the absence of underlying documentation due to flawed retention procedures
- The review of OPPD day centres found areas of serious underutilisation coupled to weak internal controls for some activities

13. No incidences of significant fraud, irregularity or corruption have been reported or detected during this quarter.

14. 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.

Counter Fraud

15. There has been a significant increase in both direct payment and "No Recourse to Public Funds" referrals, whereby the counter fraud team carries out checks in order to establish if the information provided is genuine. The increase in the referrals follows pro-active work and fraud awareness sessions within both the direct payments team and the Children Young People and Education Directorate. At the March Corporate Management Team (CMT) it was agreed to fund an increase in one post for the counter fraud team.

Works in progress and future work

16. We have a number of substantive audit projects that are in progress or near completion, these include:

- The governance review of adult social care
- Economic Development governance
- TFM Contract Management and TFM Helpdesks follow-up audits

17. Quarter 4 is also the period when we focus on work relating to the Council's underpinning corporate governance systems to support our annual year end assurance and reporting. This includes work on risk and performance management.

Recommendations

18. Members are asked to approve:

- Proposed amendments to the audit and counter fraud plan (see the Internal Audit and Counter Fraud Progress Report, Appendix B)

19. Members are asked to note:

- Progress and outcomes against the 2017/18 Audit Plan
- Progress and outcomes in relation to Counter Fraud activity
- Achievement against the Internal Audit and Counter Fraud Key Performance Indicators
- The overall assurance 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

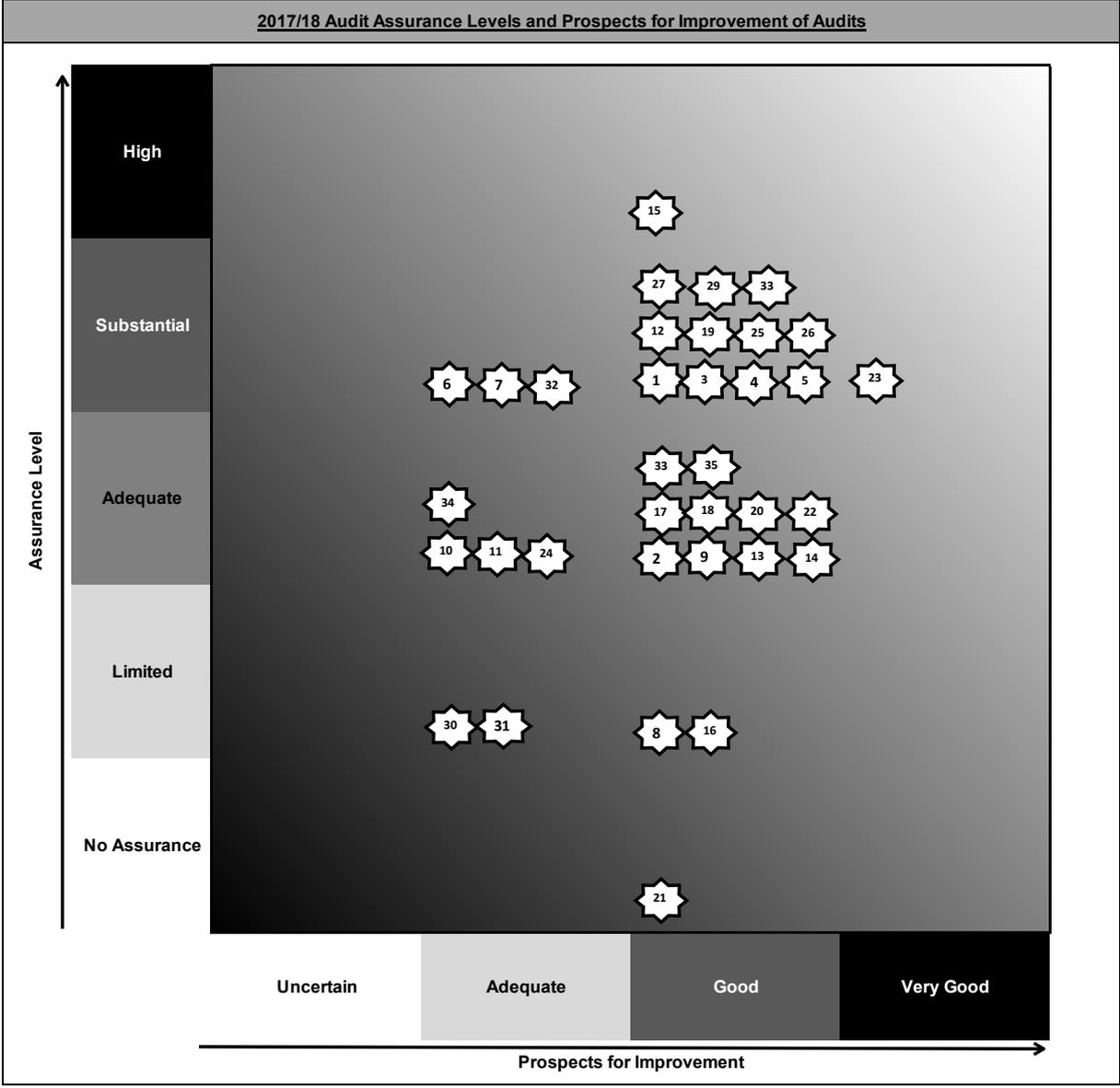
Appendices

Appendix 1 - Distribution of Internal Audit Judgements 2017/18 (to date)

Appendix 2 - Internal Audit Progress Report January 2018

Robert Patterson
Head of Internal Audit
(03000 416554)

**APPENDIX 1
Distribution of Internal Audit Judgements 2017/18 (to date)**



Audit Opinion October G&A Committee

No	Audit	Judgement	Prospects for Improvement
1	Family Placement Payments	Substantial	Good
2	16-17 Staff Survey Actions	Adequate	Good
3	ICT Strategy and Governance	Substantial	Good
4	ICT Cloud Navigation Programme	Substantial	Good
5	Cashiers and Banking	Substantial	Good
6	GEN2 Governance - KKC Side	Substantial	Adequate
7	Children's Centres Follow Up for 2017/18	Substantial	Adequate
8	Financial Assessments	Limited	Good
9	No Resource to Public Funds	Adequate	Good
10	Members Training & Induction	Adequate	Adequate
11	Programme Management & Corporate Assurance	Adequate	Adequate
12	Safeguarding Framework Follow-up - Adults	Substantial	Good
13	17-18 DOLs	Adequate	Good
14	Establishments - Nurseries	Adequate	Good
15	Treasury Management	High	Good

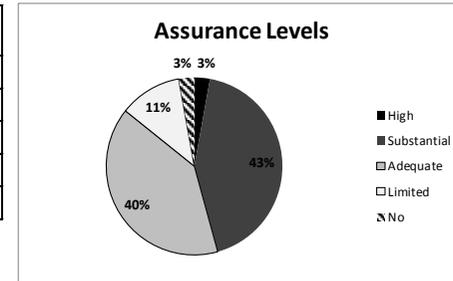
Audit Opinion January G&A Committee

No	Audit	Judgement	Prospects for Improvement
16	Learning Lessons From LATCO's	Limited	Good
17	Data Protection - GDPR	Adequate	Good
18	ICT Mobile Working	Adequate	Good
19	Cloud Navigation Follow-up	Substantial	Good
20	Young Carers Contract Management	Adequate	Good
21	Property Income Management	No	Good
22	IR35	Adequate	Good
23	KCC Payroll	Substantial	Very Good
24	Grants Follow-up	Adequate	Adequate

Audit Opinion April G&A Committee

No	Audit	Judgement	Prospects for Improvement
25	ICT Asset Management	Substantial	Good
26	Change Capacity & Knowledge Transfer	Substantial	Good
27	Apprenticeship Levy	Substantial	Good
28	ICT Cloud Navigation Deep Dive	Substantial	Good
29	Revenue Budget Monitoring	Substantial	Good
30	Discharge to Assess	Limited	Adequate
31	Children's Allowance Review Team *	Limited	Adequate
32	Schools Themed Review *	Substantial	Adequate
33	Protection of Property	Adequate	Good
34	Establishments - OPPD Day Care Theme *	Adequate	Adequate
35	Information Governance Toolkit	Adequate	Good

Assurance Level	No	%
High	1	3%
Substantial	15	43%
Adequate	14	40%
Limited	4	11%
No	1	3%



*The audits in the above list in bold are the provisional ratings which are awaiting final confirmation



Kent County Council

Internal Audit and Counter Fraud Progress Report

April 2018

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1 Introduction and Purpose

- 1.1. This report details the cumulative internal audit and counter fraud outcomes for 2017/18 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since January 2018. 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 35 substantive internal audits and 100 counter fraud investigations, the majority of which are resourced and driven from the internal audit plan (previously reviewed by this Committee) and are selected based on providing an independent and objective opinion on the adequacy of the Council's control environment. Overall, we have examined an estimated £162.6 million of KCC turnover to date.
- 1.3. A further 12 audits are currently in progress together with a further 60 counter fraud investigations (including a number carried forward from the previous year).
- 1.4. In this report we have highlighted key outcomes arising from our work together with the associated assurance levels. In section 3 we also demonstrate where these findings provide appropriate assurance against key corporate risks or significant systems.
- 1.5. Internal audit also remains involved in a number of special reviews and investigations including that as the appointed internal auditor to the Council's LATCO's where the outcomes are reported to separate audit committees.

2 Overview

Internal Audit and Counter Fraud

- 2.1 The covering paper to this progress report provides a graphical representation of the outcomes from the audits completed to date. In addition, to reprise our covering report, the following summary of strengths and areas for development emerge from the work to date:

2.2 Strengths include:

- 46% of systems and functions have been judged with 'substantial' assurance or better
- A continuing pattern of general robustness of key financial systems. During this period the audit of revenue budget monitoring has been particularly positive
- The two recent reviews on IT themes have resulted in positive assurance; the cloud navigation programme now appears to be well managed
- Our thematic work relating to school payroll and income controls has also been positive

2.3 Areas for further improvement relate to:

- The 5 (14%) of systems / functions that have received a 'limited' or 'no' assurance in current and previous reporting periods.
- One 'limited' assurance opinion relates to contract control lapses and breaches from the 'Discharge to Assess' service in social care. This has highlighted the need to learn from risks created from short term emergency funding and contracts developed with partner organisations. The outcomes have already been considered by the March Contract Management Review Group
- The other limited assurance relates to the inability to verify pre-existing children's financial allowances because of the absence of underlying documentation due to flawed retention procedures
- The review of OPPD day centres found areas of serious underutilisation coupled to weak internal control in certain areas

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

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

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

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

3.1. Appendix A provides detailed summaries on the outcomes from internal audit work completed since January 2018, 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. As such the following patterns of audits emerge against the County /Council’s key risks:

Management of demand – Children’s Services

3.2. During the year to date we have reviewed the following areas that have a theme related to management of demand for children’s services:

	Assurance Level	Prospects for Improvement	Issues Raised	
Children’s Allowance Review Team	Limited	Adequate	High: 1 Medium:3	One medium priority not accepted
No recourse to public funds	Adequate	Good	High: 0 Medium:1	All accepted

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3.3. Approximately £10 million is processed in Children’s Allowance payments by KCC. From our testing we could provide positive assurance on the accuracy and timeliness of all new cases and programmed reviews at the time of our audit, but we were unable to provide any assurance against pre -existing claims due to the policy of the department of destroying all relevant underlying records and information. Following our audit, a robust document retention schedule is being enacted.

Management of demand – Adult Social Care

3.4. During this period, we concluded our special investigation into the Discharge to Assess contract(s), which were first initiated in 2014 through Government emergency funding:

	Assurance Level	Prospects for Improvement	Issues Raised
Discharge to Assess	Limited	Adequate	Agreed by CMRG

3.5. The audit concluded that to January 2018 approximately £1.2 million had been spent without opening the service to competitive tender or obtaining a single source waiver. As such it breached a number of key procurement rules and regulations. The findings have been reported through to the Contract Management Review Group (CMRG) with lesson learnt relating to :

- Acting on short term emergency funding from central Government
- Partnerships and shared costs with other organisations
- Extensions to short term contracts
- Operating without clear contract guidelines or monitoring

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3.6. After our work the necessary waivers have been obtained and the service is being re-procured on competitive basis.

3.7. As a reminder our previous work in this risk area has been special investigation work relating to a significant domiciliary care provider and compliance to contracted call out conditions – and that was reported in full to the January 2018 Committee.

Identification, planning and delivery of financial savings

- 3.8. Clearly associated with the above risk is the delivery of the Council’s transformation plans (including the creation of trading companies for selected services). Our work to date comprises:

	Assurance level	Prospects for Improvement	Issues Raised	
Change Capacity and Knowledge Transfer	Substantial	Good	High: 0 Medium:1	Partially accepted
Revenue Budget Monitoring	<i>See below, para 3.18</i>			
Programme Management and Corporate Assurance	Adequate	Adequate	High: 2 Medium:4	All accepted
GEN2 Governance	Substantial	Good	High: 0 Medium:3	All accepted
Learning Lessons from LATCO’s	Limited	Good	High: 1 Medium:1	All accepted

- 3.9. Our work on reviewing the Council’s ability to develop and transfer knowledge to allow change and transformation programmes to be sustained was generally positive. There is a strong underlying Organisational Development plan with an appropriate focus on improving workforce capacity and capability to drive service changes. Our deep dive into 3 projects confirmed positive action being taken with only Adult Social Care having issues over demonstrating addressing risks relating to such change programmes.

Information Governance – including General Data Protection Regulations

3.10. Assurance over the integrity and reliability of the Council’s information systems has been provided by audits of :

	Assurance level	Prospects for Improvement	Issues Raised	
ICT Asset Management	Substantial	Good	High: 0 Medium:1	Accepted
ICT Cloud Navigation Deep Dive	Substantial	Good	High: 0 Medium:1	Accepted
Information Governance Toolkit	Adequate	Good	High: 1 Medium:2	High priority issue partially accepted
ICT Strategy and Governance	Substantial	Good	High: 0 Medium:1	Accepted
ICT Cloud Navigation Programme	Limited	Good	High: 2 Medium:3	Accepted
Data Protection - GDPR	Adequate	Good	High: 0 Medium:7	Accepted
ICT Mobile Working	Adequate (Provisional)	Good (Provisional)	High: 1 Medium 2	Accepted
Cloud Navigation Follow Up	Substantial	Good	No new issues raised.	N/A

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3.11. All the IT reviews in this period were positive. In relation to the IT asset register we can provide positive assurance that the Council has appropriate controls in place for managing ICT assets in accordance to its strategic objectives. Testing showed the completeness of the relevant asset register was satisfactory with only minor instances of records of asset owners being out of date.

- 3.12. Our deep dive into the Cloud Navigation project confirmed a positive direction of travel in relation to its project management. The current manager demonstrated a clear approach and methodology to ensure the programme is completed to schedule with appropriate controls, documentation and reporting. New budget monitoring arrangements are being put in place from April 2018.
- 3.13. Out audit of the submission of the Information Governance Toolkit for 2018/19 identified that one key item of supporting evidence - the PSN certificate - was out of date. We were assurance that the new certificate is to be received imminently. In addition, the roles and responsibilities for completing the Toolkit submission require clarification.

Safeguarding – protecting vulnerable children

- 3.14. There has been no new work undertaken in this area over this period, but as a reminder, previous outcomes have been:

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	Assurance level	Prospects for Improvement	Issues Raised	
Nurseries – themed review	Adequate	Good	28 issues raised across the 3 sites visited	All accepted
Children’s Centres follow up	Substantial	Good	High: 0 Medium:4	All accepted
Young Carers Contract Management	Adequate (Good	High: Medium:	All accepted

Safeguarding – protecting vulnerable adults

3.15. During this period we reviewed 'Protection of Property' controls with the following outcomes:

	Assurance Level	Prospects for Improvement	Issues Raised	
Protection of Property	Adequate	Good	High: 2 Medium:4	All accepted
Safeguarding framework – Adults – Follow Up	Substantial	Good	High: 1 Medium:4	4/5 actions implemented
Deprivation of Liberty (DOL's) – Follow Up	Adequate	Adequate	High: 4 Medium:1	3/4 high priority actions implemented 1 medium priority in progress

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16. Following a special investigation in 2016/17 we undertook an in-depth review of 'protection of property' controls whereby the Council takes recovery and control of the personal property and assets of vulnerable people. In general, we found that controls had improved including development of a clear policy embracing a number of areas of good practice such as proactive training. There were however still weak areas around financial controls surrounding client monies and recording of valuable assets. SWIFT records (the Social Care core system) did not have clear records for the current status of cases. Management have agreed the implementation of remaining actions.

Financial and operating environments – critical systems and functions

3.17. 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. The following two topics were examined during this period with the following outcomes:

	Assurance level	Prospects for Improvement	Issues Raised	
Revenue Budget Monitoring	Substantial	Good	High: 0 Medium:0	N/A
Apprenticeship levy	Substantial	Good	High: 0 Medium:2	All accepted
Family Placement Payments	Substantial	Good	High: 0 Medium:1	All accepted
Financial Assessments	Limited	Good	High: 2 Medium:5	All accepted
Treasury Management	High	Good	High: 0 Medium:0	N/A
Cashiers and Banking	Substantial	Good	High: 0 Medium:2	All accepted
2016-17 Staff Survey Actions	Adequate	Good	High: 1 Medium:0	All accepted
Members Training and Induction	Adequate	Adequate	High: 1 Medium:1	All accepted
Property Income Management	No	Uncertain (Provisional)	High: 3 Medium:0	TBC
IR35	Adequate	Good	High: 1 Medium:2	All accepted

KCC Payroll	Substantial	Very Good	High: 0 Medium:1	All accepted
Grants Follow Up	Adequate	Adequate	High: 3 Medium:2	Reported to CMT and risks accepted

- 3.18. The audit of revenue budget monitoring was particularly positive and from testing of a sample of budgets it was evident that the collaborative planning system (CP) is used appropriately with higher risk areas backed up with more intensive spreadsheet monitoring. The relevant accountants are providing appropriate and timely challenge on variances identified from the system. Commentaries to relevant bodies of the Council charged with budgetary governance are accurate and appropriate.
- 3.19. Our review of the management of the new apprenticeships systems and funding was generally positive, with effective management of the Central Government portal which has a number of inherent weaknesses. Overall the Council has responsibly managed these opportunities and is endeavouring to maximise the benefits from the scheme. Despite this, at the time of our audit a balance of nearly £1.7 million remained on the KCC digital account.

Other Audit Assurance

Schools themed coverage

- 3.20. Our review of 20 schools focused on payroll and income controls, with the following outcomes:

	Assurance Level	Prospects for Improvement	Issues Raised	
Schools Payroll and Income	Substantial	Adequate	High: 0 Medium:4	All accepted

- 3.21. Overall controls in these areas are satisfactory, if not always consistent.

3.22. For payroll, schools had sufficiently robust controls for authorising and processing payroll set up and data amendments in a timely manner. Variance reporting was good and appropriately investigated. Some schools had issues over the timeliness of applying pay awards. In general schools held good income records and we were able to substantiate the accuracy of bankings. However, one in five schools had insufficient income records, particularly around fundraising events.

Establishment Audits – (OPPD Day Centres)

3.23. During this period, we completed our themed establishment work through visited to 5 OPPD Day Services. The following judgement was made, and centres reviewed:

	Assurance level	Prospects for Improvement	Issues Raised	
Establishments – OPPD Day Care	Adequate	Adequate	A total of 59 recommendations made of which 7 were high risk	All accepted

Individual OPPD Day Centre	Assurance level	Occupancy levels
Minnis Bay Day Services	Adequate	33%
Milan Day Services	Limited	110%
Guru Nanak Day Services	Limited	86%
Gravesham Place Integrated Care Centre	Adequate	26%
Westview Integrated Care Centre	Adequate	64%

3.24. We had a number of concerns in the operation of selected controls across the centres, more particularly health and safety, staff training and maintaining accurate asset registers. As per above, perhaps the most evident value for money concern was the utilisation levels at certain centres.

4 Other Audit Work including Grant Certification

- 4.1 We continue to independently review Troubled Families grant claims as well as certifying other grants (where required by funders) relating to Transport, Highways and EU grants.
- 4.2 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' function for Kent Commercial Services, Gen2, Invicta Law and to the future Education ('The Education People') and BSC companies
 - Appointed auditor to 12 Parish Councils
 - Internal audit of Kent and Essex Inshore Fisheries and Conservation Authority
 - Internal audit of Kent and Medway Fire and Rescue Service
 - Management of the audit and fraud service at Tonbridge and Malling Borough Council
 - Input towards the Kent Intelligence Network (KIN) counter fraud data matching hub
- 4.3 During this period, we also won the internal audit contract for 'Mytimeactive', a charitable company principally formed from the leisure services operations of the London Borough of Bromley.

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5 Counter Fraud and Corruption

Fraud and Irregularities

- 5.1 We have recorded 160 irregularities in 2017/18 of which 60 remain under investigation and 100 have been closed (see CF1). From the 100 closed irregularities, 76 have been defined as fraud and 25 as a financial irregularity.
- 5.2 At the point an irregularity is referred to Internal Audit we estimate the potential value. Based on the information available at the time we estimated the total value of all the irregularities reported to us to date as **£690,435**.

- 5.3 There has been an increase in the '*no recourse to public funds*' referrals sent to the counter fraud team by social care. The potential value of the 15 referrals to date equates to £208,300. This is calculated by using the average value of accommodation and food for six months.
- 5.4 Kent's schools have also been targeted by mandate fraud in 2017-18. The counter fraud team continue to alert schools through KELSI (Kent Education Learning and Skills Information) in order to prevent other schools falling victim of this type of fraud.
- 5.5 From the 160 irregularities reported, 106 have been from social care (see CF3), although the majority (80) relate to misuse of the Blue Badge scheme. The most common type of referral reported to the counter fraud team remains misuse of the Blue Badge (see CF2). The most common source of referrals is from staff (see CF4).
- 5.1 The "Social Care Fraud" category is made up of Direct Payment misuse, deprivation of capital, financial abuse by a third party and financial assessment fraud. Fraud awareness sessions have been completed with the Financial Assessment Teams to promote fraud prevention and this has also seen a welcome increase in direct payment referrals from this team.
- 5.2 Because of the proactive fraud briefings, the overall fraud referrals to the team have been increasing substantially during 2017 such that backlogs are now growing. Following the presentation of a business case to the Corporate Management Team the capacity of the counter fraud team will grow by one post from May.

Fraud and Irregularity tables:

Table CF1 - Number of Irregularities Reported by Month

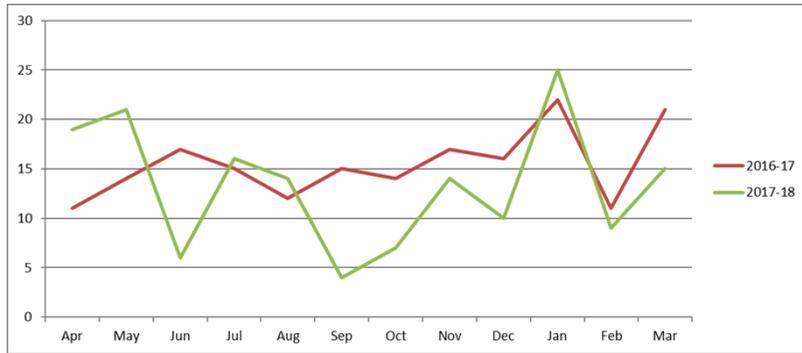


Table CF2-Irregularities by Type - 2017/18

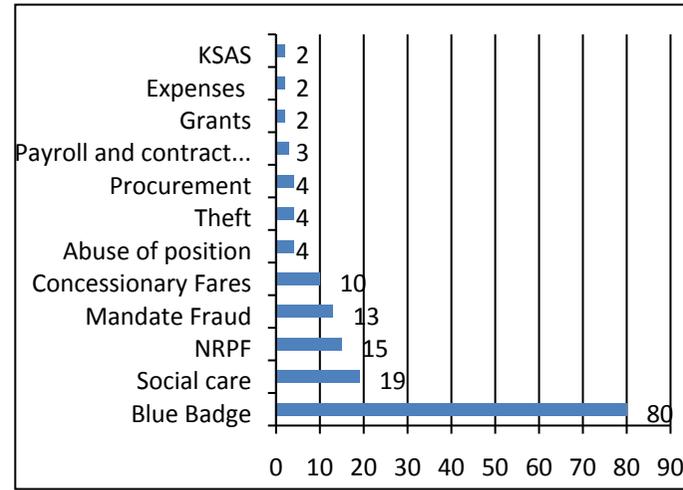


Table CF3 -Irregularities by Directorate

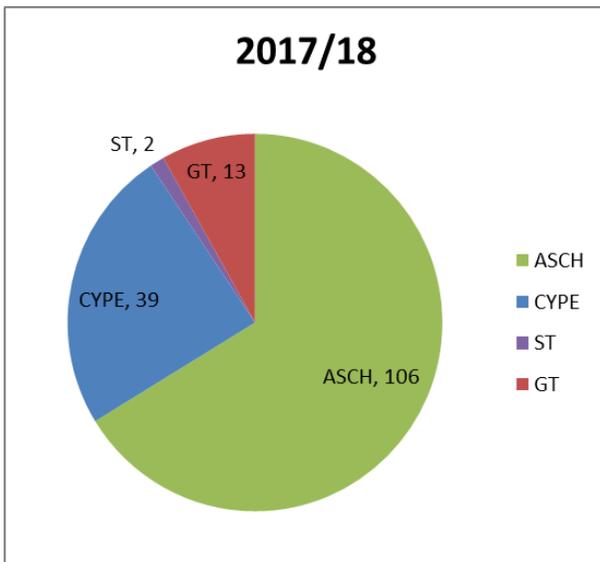
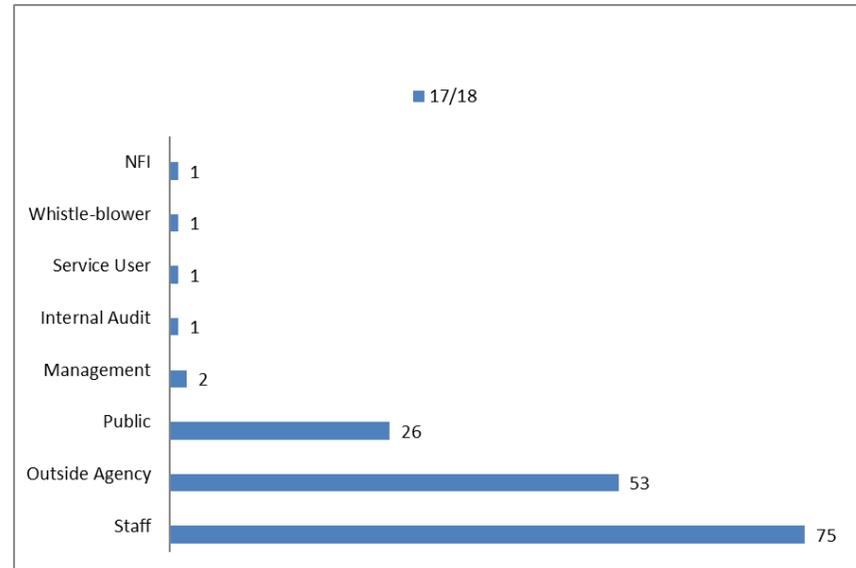


Table CF-4 Source of Irregularities



6. Internal Audit and Counter Fraud Performance

6.1 Performance against our targets to the end of March 2018 are shown below:

Performance Indicator	Target	Actual
Outputs		
90% of Priority 1 audits completed (by year end)	82%	82%
20% of Priority 2 audits completed	16%	19%
Draft audit reports issued within agreed date on the engagement plan	100%	75%
No of fraudulent incidents / irregularities recorded	N/A	160
Outcomes		
% of high priority / risk issues agreed	N/A	100%
% of high priority / risk issues implemented	N/A	45% (55% in progress)
% of all other issues agreed	N/A	99%
% of all other issues implemented	N/A	97%
Client satisfaction	90%	97%
Value for money / efficiency savings identified		£200,000
Total number of occasions on which		
a) fraud and	n/a	76
b) irregularity was identified	n/a	25
Total monetary value of		
(a) fraud and		£512,135*
(b) irregularity that was detected		£34,317*
Total monetary value of		
(a) fraud and		£83,462
(b) irregularity that was recovered		£0

* These figures include unsuccessful attempted frauds that resulted in no loss and therefore do not require recovery.

7.1 In general, the 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 2017/18.

8 Internal Audit and Counter Fraud Resources

8.1 Resources are keeping pace with our growing workloads. As reported above, the fraud team is to grow by one post to meet the increasing levels of referrals and special investigations. In addition, because of the increasing levels of fee earning work (now approximately 25% of our turnover) we have been given permission to recruit an additional Principal Auditor, to commence from the summer of 2018. In relation to the impact on the KCC budget, the new Principal Auditor post will be funded from external fee income and a proportion of the cost of the new fraud post will be offset by increasing recoveries.

8.2 During the period under review the unit moved to more central offices in County Hall and is appropriately located alongside other teams in the Finance Directorate.

9 Work in progress and future planned coverage

9.1 Appendix B updates progress against the agreed plan coverage and substantiates the estimation that we are on target to achieve our coverage. For the final period of 2017/18 we have a number of substantive audits still in progress that require completion including:

Governance review of adult social care	Health and Safety
Economic Development governance	Outdoor education establishments
TFM contract management and TFM helpdesk follow-up audits	Corporate Governance and Annual Governance Statement and returns
Quality in Care Frameworks	Risk Management

- 9.2 As detailed previously we also have substantive workloads around the Council's LATCO's (which are reported to separate audit committees) together with a number of special investigations.

10 In Conclusion

- 10.1 We are satisfied that 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 In addition, line management have taken, or have planned, appropriate action to implement our issues and recommendations.
- 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.

Appendix A – Summary of Individual 2017/18 Internal Audits issued January - March 2018

Children’s Allowance Review Team (Draft Report)

Audit Opinion	Limited
Prospects for Improvement	Adequate

From our sampling of claims in progress we are satisfied that assessment processes are generally sound but unfortunately current processes involve the destruction of all underlying evidence following the 3-month review, and therefore we can provide no assurance regarding the validity or accuracy of pre-existing claims. It is of concern that the children’s systems differ to those for the assessments of adult direct payments where all relevant information is retained. Clearly an absence of substantiating evidence also places the Council at risk from subsequent challenges on assessments by the Courts or external bodies.

Key Strengths

- For all the new claims sampled, evidence of income and expenditure was held to substantiate the claim.
- All claims sampled were authorised for payment and a memo from the Children’s Payment Team confirmed the correct amount payable.
- Three claims were Staying Together orders; a placements panel referral was held in each case and the payment was correct.
- Review assessments were accurate and timely. All review action points had been addressed promptly.
- The CART processes manual provides sufficient guidance for staff.
- Suspended applications are being actioned in a timely manner.
- Monthly and quarterly monitoring reports are consistently produced.

Areas for Development

- For the 8 existing claims sampled, evidence of income & expenditure and the means test pack was not held. Therefore, we were unable to substantiate the accuracy or validity of these payments.

- The application form requests receipt of copy information rather than originals which further increases the risk of fraud and error.
- In 2 current cases reviewed the assessment incorrectly included a child benefit deduction.
- There was no evidence to confirm the validity of assessments undertaken for either the new claims or the existing claims because process checklists were not signed by the reviewing officer.
- In most cases the court order was not held with the assessment.
- Approval of the CART processes manual was not evidenced, and review dates had not been set.
- Inefficiencies in working practices were identified for vendor set up and payment processing, and increased risk of compromised data protection.

Prospects for Improvement

- Management have agreed from 1st May 2018 to create substantive audit trails to justify payments being made and bring their processes in line with that of adult direct payments.
- The reorganisation of the teams in 2015 has resulted in efficiency improvements that continue.
- Errors identified are being logged and rectified. Lessons learned need to be disseminated so that errors are not repeated.

Summary of Management Responses

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

Audit Opinion	Limited
Prospects for Improvement	Adequate

The service was set up to meet increase demand from Hospital discharge and help manage delays moving patients out of hospital into the community. Community care providers were consulted in the development of the service, however there has, until recently, been no formal arrangements for the running and management of the service. Although we were informed there is a contract in place between KCHFT (transferred from EKCCGs) and the contractor, and West Kent CCG and Hilton, there is has been no contract with KCC.

This case highlights a number of key risks and concerns:

- Acting on short term ‘crisis’ or emergency funds, which are becoming more commonplace
- Partnerships and shared costs with other organisations
- Extensions of short term ‘contracts’
- Operating without clear contract guidelines or monitoring

It is evident that for elements of these contracts:

- OJEU regulations have been breached.
- Procurement policies and guidance from KCC have not been followed and delegated authority limits breached
- Value for money / best value has not been properly tested since the service started elsewhere in the county.
- There has been an absence of formal contract management and performance monitoring

Key Strengths

- The original service was commissioned to meet a specific need of dealing with delayed discharge and was funded by emergency money provided for that purpose. The directorate requested advice from procurement and consulted all community providers in Kent.

- After the winter pressures money finished, EKCCG’s commissioned the service and it became fully funded by the CCG. The service remains funded by the CCGs, although bridging payments have been made during 17/18 due to delays in moving social care clients out of the Hilton service.
- Single Source, Interim contracts have been put in place to cover the service until it is re-procured
- Invoices received by Hilton are reviewed by Short Term Pathway (STP) Managers to ensure accuracy before authorisation is given to pay.
- An attempt has been made to set up service monitoring of the contractor. However, this is in its infancy and relies on information provided by the contractor themselves.
- The service has helped facilitate discharge and helped KCC in meeting the NHS discharge requirements.
- A review carried out by the department of Health in West Kent stated that the services had shown encouraging results and supported the continuation of the service.

Lessons Learned

- The discharge service was initiated without opening it to competitive tender, in breach of procurement rules including OJEU regulations. To January 2018, approximately £1,225,000 has been spent, in part due to the escalation of the service on several occasions during this time.
- Whilst the initial service could have been covered by a single tender waiver, the continued level of spend on the service should have triggered the need to proceed with a competitive procurement exercise. This did not happen until almost a year later despite the service being known about and discussed with strategic commissioning throughout.
- There have been no contracts put in place between KCC and Hilton for the discharge to assess service. Although the initial service in East Kent was a short-term service and was later commissioned by the CCG, the services in West Kent and DVH have continued and an interim contract has only recently been drawn up.

Lessons Learned (cont)

- The service has been delivered and managed through email correspondence and verbal agreement. There has been no formal contract management and subsequently no contract variation procedures to allow suitable authorisation of changes.
- Monitoring and an improvement cycle piece of work has recently been set up. Before this there was no monitoring of the discharge service to ensure that the correct patients are being referred.
- This service and the issue of its continuation and expansion after the initial emergency funding, was a known within the directorate and corporately. Yet there has been a lack of intervention or proactive approach to formalise and procure the service correctly until triggered by SCB in October 17. This could have been identified earlier.
- The spend on the service exceeds delegated authority limits. Email correspondence from the Corporate Director for Social Care Health and Wellbeing demonstrated agreement for the services to start, but a contract with cumulative spend over £1m would require a key decision from the cabinet member.
- Although invoices have been validated against activity, there have been no formal KPI’s and no monitoring of the services performance and effectiveness. There is a recent improvement cycle piece of work ongoing in West Kent to ensure the best use of the service, but this is in its infancy and relies on information provided by the contractor themselves.
- There is no social care client record of the service users passing through the service.
- 50:50 funding split for West Kent Hospitals and the issues of not recovering CCG funding for the service in DVH gives rise to the possibility that we are funding patients who do not have social care needs. This could represent shifting of health costs on to KCC.

Prospects for Improvement

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

- The service has now gone out to re-tender with expression of interest from a number of providers.
- Commissioning and Procurement has been restructured giving better oversight of activities
- Confusion on governance routes for commissioning emergency services in the authority may persist

Summary of Management Responses

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

Audit Opinion	Substantial
Prospects for Improvement	Good

Overall KCC is making progress in terms of transferring and developing knowledge to enable change to be sustained. The Organisational Development plan for 2017-2020 has appropriate focus on improving workforce capacity and capability to deliver transformation and service change, although this is at a relatively early stage of its 3-year cycle, and as such progress for some actions are limited.

Our detailed review of the knowledge transfer arrangements for three significant Tier-1 change programs concluded that appropriate action has been taken to achieve this. However, during the audit we were unable to obtain information to assess the progress of a mitigating action within Adult Social Care’s risk register in relation to knowledge transfer and therefore this remains a gap in assurance.

Organisational Development Plan

Key Strengths

- Engagement, Organisation Design and Development (EODD) have developed the Strategic Organisation Development Plan for the 3-years 2017-2020 which sets out how KCC will improve workforce capacity and capability to deliver transformation and service change.
- Underpinning the above plan is an annually agreed action plan and budget, which note development areas and timescales.
- Progress is monitored quarterly, reporting to CMT every 6m.
- The first CMT Report was in October 2017 and provided an update focused on key messages and progress. A detailed progress report against the full action plan was not provided as this was not considered appropriate for the target audience.
- The OD team demonstrated appropriate knowledge of the actions required to achieve the agreed annual OD plan.
- OD directorate groups were aware of the annual action plan, with individual agendas in place which aligned to directorate priorities.

Areas for Development

- The OD plan is at the relatively early stages of its 3-year cycle, and consequently progress for some actions is limited. The annual action plan would benefit from specifying owners for each so that responsibilities are clear. In addition, a supporting tracking document underpinning the annual action plan that shows progress, dependencies and costs against each action would better demonstrate progress.

Tier 1 Projects

Key Strengths

- Two of the projects were led by our transformation partner ‘NE’ and the consensus was that their methodology did not align to the Council’s established strategic commissioning cycle of ‘Analyse, Plan, Do & Review’ and therefore in terms of knowledge transfer there was little to be gained. It was also considered that the data and methods used within these projects were understood by key officers. We did not explore this further as these have been covered by previous audits. Newton Europe are no longer being engaged by KCC, but incentive payments based on savings continue.
- Each NE project had a call-off agreement which specified the knowledge transfer that should take place during the project, including coaching, integrated support and technical guides. Evidence was available to demonstrate these had been completed.
- The third project selected was the Education Services Company where an external contractor has been engaged to deliver the overall programme. A permanent member of KCC staff has also been seconded to this project and is currently being trained in programme management tools and techniques to further up-skill the capability in that directorate.

Areas for Development

- None identified.

Transformation - Change Capacity & Knowledge Transfer – cont

Prospects for Improvement

Our overall opinion of Good for Prospects for Improvement is based on the following factors:

- The Corporate risk register has an open action on “skills transfer” which states “stipulations built into contracts of external efficiency partners / consultants to ensure internal staff develop relevant skills and build capability”.
- The central OD Team provide a good level of support and challenge to all OD directorate groups.

Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	0	N/A	N/A
Medium Risk	1	1	Partially Accepted
Low Risk	0	N/A	N/A

Revenue Budget Monitoring

Audit Opinion	Substantial
Prospects for Improvement	Good

Collaborative Planning (CP) is used to monitor most budgets, except for some very high risk and complex activity-based budgets, where detailed spreadsheets are used. Testing of a sample of budgets, and discussions with accountants established that most budget holders make good use of CP to both provide a commentary on current month variances, and to produce a year end forecast. Revenue Budget Monitoring Accountants are providing suitable challenge to budget variances identified. monthly budget monitoring reports for the Corporate Board and Cabinet are accurate and include appropriate commentary and explanations.

Key Strengths

- The Council's financial regulations clearly set out the control framework for budget monitoring.
- Guidance on the use of Collaborative Planning is readily available to budget managers via KNet.
- The accountants are fully familiar with the steps required to make best use of the complex spreadsheets used to monitor the high-risk budgets.
- Where spreadsheets are used, they include various built-in controls and checks to ensure the accuracy and completeness of information being relied upon.
- Accountants have a good understanding of the budget areas they are responsible for and therefore are able (and do) challenge variances to budgets.
- Current budget and forecast positions are being accurately reported to Senior Management and Members.

Areas for Development

- Procedure notes are not in place for accountants to use as an aide memoire for monitoring and overseeing all budgets.
- Support is provided to some budget managers who could be self-supporting, using accountancy resources to increase time spent on higher risk budgets.
- Production of the report to cabinet is completed within 30 days of the month end, reflecting the time taken to produce, review and challenge the reports. However, reporting to Cabinet is usually 3 months after the month end, due to the timing of Cabinet meetings. This timeline creates a risk that decisions made by Cabinet on strategic issues and policies may not be timely.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- Officers were receptive to the issues identified.
- All finance staff involved in budget monitoring and reporting had a good understanding of their role and the budgets they support.
- The systems and processes in use are robust and plans are in place to further increase the use of CP for more complex budgets.

Summary of Management Responses

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

Audit Opinion	Adequate
Prospects for Improvement	Good

At the time of submission, the Council was not in possession of a core PSN certificate. The General Counsel has escalated this to the Head of Paid Service and we are advised that a certificate is imminent. Consequently, we cannot provide positive assurance that the Toolkit complies with stipulated requirements. That said, the General Counsel is confident that the Council would be able to provide alternative evidence to the NHS to support compliance, if this were queried. We have not substantiated this assertion.

At the time of audit fieldwork, substantive pieces of evidence were incomplete or out of date. As at 3rd April 2018, the deadline was met, and a Satisfactory rating was self-certified, although not all the points raised in Issue 1 were addressed albeit with some valid reasons. We are unclear how this this will affect the quality assurance review undertaken by the NHS upon submission and whether they will support the Satisfactory rating, although in our opinion none of these present a significant risk.

Key Strengths

- Adults Social Care demonstrated good accountability and were able to adequately answer all questions raised with them. The Toolkit sections relating to Care Records had been updated with appropriate evidence in good time for the submission deadline.
- The Toolkit requirements supporting the Care Records Assurance section for 17/18 have been uploaded to attain level 3, as to opposed to level 2 as in previous years (both are acceptable, however level 3 demonstrates a higher level of compliance).
- The General Counsel was aware that supporting evidence for the remaining three sections needed reviewing and updating for the 31st March 2018 and had taken personal responsibility for this.

Areas for Development

- For the majority of the Toolkit requirements evidence was outstanding or out of date when we reviewed it in early March 2018. One significant piece of evidence is the PSN Certificate that covers off a number of requirements and expired in January 2018. In addition, several policies are being updated in line with the new General Data Protection Regulations (GDPR) and so may not be available in time. We were assured by the General Counsel that suitable evidence will be available for the submission’s deadline.
- There is no documented procedure supporting the Toolkit processes, including defining roles, responsibilities and time frames. Adult Social Care have prepared a draft procedure for the General Counsel to aid defining roles and responsibilities.
- For the 2017/18 submission, roles and responsibilities have changed, however access rights had not been reviewed.

Prospects for Improvement

Our overall opinion of **Good** for Prospects for Improvement is based on the following factors:

- There is an acknowledgement that stretched resources and competing priorities (for example GDPR) could mean that the submission may not happen until the ‘eleventh hour’.
- Roles and responsibilities for the timely completion of the Toolkit submission need to be clarified going forward.

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 – partial	partial
Low Risk	2	2	n/a

Audit Opinion	Substantial
Prospects for Improvement	Good

The Council’s Information and Communication Technology (ICT) Strategy outlines six core principles that set out the Council’s direction of travel for ICT and appropriate management of the Council’s ICT assets.

Council’s ICT asset database is maintained in the Supportworks system and is well established, covering hardware and software licences. We found that generally the completeness and accuracy of the asset register was satisfactory, with a small number of exceptions identified through audit testing.

Key Strengths

- Responsibility for ICT asset management is segregated between the Service Request and the Security and Infrastructure teams.
- Responsibility for the management and co-ordination of the Technology Refresh Programme (TRP) has been assigned to the ICT Project Manager.
- There are documented technical procedures in place for requesting new ICT assets, recording and issuing ICT assets to members of staff, returning ICT assets that are no longer in use and remotely wiping mobile devices that are lost or stolen.
- The Council’s ICT asset database records the individual asset number, the owner of the asset, a description of the IT asset and its current status.
- ICT assets could be traced back to the ICT asset database and it was observed that they have been recorded correctly.
- Printers are managed through Managed Print, and there is a record of all printers in use at the Council, including their location.
- Software licenses are recorded in the Council’s ICT asset database and are allocated to the individual users to which the software is deployed.

- Software has been implemented to manage mobile devices, including the facility to remotely wipe devices that are lost, stolen or no longer in use.
- There are arrangements in place for the secure disposal of the Council’s ICT assets by an external contractor, and there are full records of the assets that have been collected for disposal, including disposal certificates.

Areas for Development

- The Council’s ICT asset database was found to include out of date information regarding the ‘asset owners’.
- Whilst the Council has an ICT Asset Management Policy in place, awareness of the policy among staff was limited and the policy does not provide clear links to relevant guidance available on KNet.
- The ICT Asset Database does not record ICT assets as lost or stolen and there is no separate record of lost or stolen assets.

Prospects for Improvement

- Good overall awareness within the relevant ICT teams of the technical procedures for configuring, managing and securing ICT assets.
- Robust configuration and functionality of the Council’s ICT asset database.
- The audit findings were received positively and action has already been taken to address one of the issues identified in this report and robust action plans have been developed to address the remaining issues.

Summary of Management Responses

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

Audit Opinion	Substantial
Prospects for Improvement	Good

Phase One of the Cloud Navigator Programme is progressing well with the ENMO work stream, which is the largest of the Programme work streams and is now due to be completed three months ahead of the original planned end date of June 2019.

The Programme is on its third Programme Manager in less than a year which led to a lack of continuity in terms of governance - with some programme board meetings not being held and documentation not being appropriately disseminated or approved. However, these issues are now resolved and the current Programme Manager has driven forward the Programme, demonstrating a clear and holistic approach to ensure the Programme is completed as expected, with appropriate documentation and reporting in place.

Key Strengths

- Regular updates as to the progress of ENMO are provided to monthly governance boards with key information such as risks reported here as well as updates provided weekly.
- As part of the new Agile methodology, daily meetings are held to ensure full awareness of the current status of the different streams of work from various officers working across the project.
- Steps have been taken to ensure that downtime of key services will be minimised through communication with stakeholders (such as the completion of surveys with users and discussions with the vendors) allowing for confidence moving forward to the migration.
- Controls surrounding the security applications and data when in the Cloud are appropriate, with robust controls surrounding the development and approval of security measures such as the Walled Garden.

- Sound governance procedures are now in place relating to monitoring the progress of the work and an improved relationship with Microsoft.
- The project is currently projected to deliver 3 months ahead of schedule.

Areas for Development

- Whilst resource forecasting has been undertaken, budgets for internal and contractor resources were not fully recorded and monitored.
- A Project Initiation Document (PID) was produced for the ENMO work stream but this did not include a budget total, nor was it approved and communicated to the team prior to the commencement of the work. The PID has since been approved.

Prospects for Improvement

- A new Programme Manager is in place with a good awareness of the project and team, due to having been a Project Manager on a previous work stream.
- Issues with the governance of the Programme have now been resolved.
- The relationship with the main supplier, Microsoft, is functioning well.

Summary of Management Responses

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

Protection of Property

Audit Opinion	Adequate
Prospects for Improvement	Good

We reviewed the current arrangements in place for the Protection of Property (PoP) activity and found several areas where controls were operating effectively and there were several examples of good practice including developments to the training available for officers (although more than half of officers had not completed training).

Unfortunately, there are a number of areas where critical controls are weak including training compliance, financial controls and monitoring.

Key Strengths

- The PoP policy aligns to legislative requirements and details the roles and responsibilities of Officers undertaking the PoP activity.
- The training available on Delta was updated during the audit which noticeably enhanced the previous version
- Testing identified that for all service users sampled the correct authorisation had been obtained prior to acting on their behalf.
- The majority of forms which were required to be completed during the course of the PoP activity were available.
- All PP3's (Inventory forms) within our sample contained evidence that this was checked by two Officers.
- The majority of management actions agreed following our 2016/17 investigation have been implemented.
- There was only one instance from in the test period where the Council had to clear a service user's property and we found that two quotations were received to ensure value for money was obtained.

Areas for Development

- Review of training records identified that the available training had not been completed by 65% of relevant officers.

- Review of SWIFT records found that these were not clear enough to allow the current status of the case to be identified.
- A number of the financial controls in place for the PoP activity could be strengthened - such as improving the description on Oracle for client monies so that they can be clearly identified. The policy could further be enhanced to include details such as guidance regarding valuable assets
- Inventory forms contain 3 separate sections for cash, assets stored in the locality safe and valuable assets too large to move. Sections are only completed if any relevant assets are found and nil returns are not retained.
- Photographs taken at each of the service users' properties did not always include a picture of all valuable assets left at the property.
- We identified potential enhancements to the process when Client Financial Affairs (CFA) is involved in a protection of property case, where CFA follow their own internal procedures.
- The policy states that the PoP activity should have regular monitoring including completion of training and number of cases however, we were unable to identify any such monitoring.

Prospects for Improvement

- Positive action has been undertaken since the previous investigation to enhance the controls within the PoP activity.
- All identified issues within the report have been addressed by a management action plan

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	4	4	0
Low Risk	1	1	0

Audit Opinion	Substantial
Prospects for Improvement	Good

The biggest challenge faced by those involved with centrally managing apprenticeships is working with the on-line Central Government portal (the Digital Account), which does not have the capability to report or reconcile entries, leading to a significant amount of officer time being spent trying to reconcile the account to KCC's records. Additionally, meeting the target for apprentices within schools remains a challenge, although the outlook is positive with the recent conversion of the new Teacher standard (former PGSE), which will see an increase in the number of apprentices.

Key Strengths

- There was a good range of guidance available for both apprentices and managers on-line (both KNet and Kelsi), with accompanying detailed guidance documents also available.
- the majority of current and pipeline apprentices align to KCC's priority areas (social care and business administration).
- For corporate staff (those not working at schools or LATCOs), KCC is understood to be on track to meet its target of 2.3% of headcount.
- The Young People Strategy which is in development will include apprenticeships as a focus.
- All reasonable steps are being taken to ensure that existing staff training schemes are converted to apprenticeships where they are not already recognised as one of the new apprenticeship standards by Central Government.
- From our sample of apprentices reviewed, all met the eligibility criteria and all but one had a learning agreement in place.
- For all new to KCC apprenticeship recruits, the job descriptions, person specifications and contracts covered the apprenticeship role.

- All Apprenticeship Levy payments in respect of KCC Payroll from our sample were accurate.
- All entries on both the KCC corporate tracker and the KCC school's tracker reconciled to the Digital Account. It is evident that a monthly financial reconciliation is carried out despite this being very labour intensive.

Areas for Development

- There are no procedure notes regarding completion of the financial reconciliations.
- The current processes for reconciling the Digital Account and associated finances should be streamlined to aid efficiency.
- There is no reference in the Recruitment Strategy of the priority apprenticeship areas of Social Care and Business Administration.
- Apprenticeship vacancies on Kent.gov.uk are not all being simultaneously advertised on the Apprentice Kent and the National Apprenticeship Service.

Prospects for Improvement

- Process enhancements are welcomed by officers but largely dependent on improvements to the Digital Account by Government.
- There is Council-wide support for increasing the level of apprentices.
- Key officers have been receptive of the issues that have been raised within this audit and shown a real desire to improve processes.

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	2
Low Risk	2	2	2

Audit Opinion	Substantial - TBC
Prospects for Improvement	Adequate - TBC

The majority of the 20 schools sampled are operating satisfactory controls around payroll and income. However, there is an inconsistency in the application of these controls across a number of schools.

For payroll, improvements are required with regards to evidencing decisions made in relation to pay awards and the timeliness of applying increases. On the whole, security of personnel and finance files were sufficient and the majority of school’s policies were comprehensive and up to date.

There were insufficient income records held for one in five of the schools visited, and controls for recording and verifying income received from fund raising events needs to be improved.

Key Strengths

- We confirmed that new starters had been added to the payroll promptly for all schools.
- Overtime was appropriately authorised and accurately processed for the majority of schools.
- We were able to test teacher’s pay uplifts and performance related pay for 13 schools – all but one had been accurately applied.
- CAPITA had applied the standard 1% for four schools in our sample before they had agreed the uplifts. However, this did not lead to underpayments at two of the schools.
- Reconciliations to the bank account were completed for all schools in relation to the monthly payroll BACS file
- Review of payroll reports identified seven occasions where over/under payments had been made across all schools.
- Sufficient income records were held for 16/20 schools & receipts were issued for 7/20 schools. We could confirm that monies had been posted into the accounts accurately and promptly for all schools.

Areas for Development

- There were insufficient details recorded on expenses claims for 35% of schools.
- Five schools did not have appropriate records to support pay award decisions for Teachers, this includes two of the schools where CAPITA had applied the automatic 1% increase.
- There was in-sufficient segregation of duties for two schools in relation to preparing and authorising the monthly payroll file. Furthermore, there was no evidence that the monthly payroll file had been authorised for two schools.
- For income we were unable to select a sample from source records for 4/20 schools as sufficient details were not recorded to show a breakdown of who had paid the money in or what it was for and receipts were not issued.
- It was established through income testing for six schools the amount of cash being banked exceeded the cash limit defined in the School’s Finance Policy
- Two schools did not store payroll records securely, and one school also did not keep financial documents locked away.

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	4	4	0
Low Risk	0	0	0

Establishments – OPPD Day Services (Draft Report)

Audit Opinion	Adequate - TBC
Prospects for Improvement	Good - TBC

Internal Audit undertook a series of establishment visits to five OPPD Day Services establishments as part of the agreed 2017/18 annual Audit Plan. The following Centres were reviewed:

Establishment	Assurance Level
Minnis Bay Day Services	Adequate
Milan Day Services	Limited
Guru Nanak Day Services	Limited
Gravesham Place Integrated Care Centre	Adequate
Westview Integrated Care Centre	Adequate
Overall Opinion	Adequate

Across the five Centres, 59 recommendations were raised, of which 7 (12%) were high priority. These concerns were particularly around utilisation of the service, evidencing that deliveries had been checked for quality and quantity; maintaining complete and accurate asset registers; health and safety controls and staff training.

Key Strengths

- Building security is well managed to safeguard users.
- Expenditure approval was in line with KCC's scheme of delegation.

- DBS checks for staff are up to date.
- Accident reporting is well recorded, with actions being identified and implemented to prevent accidents recurring.
- Personnel, financial and client files are stored securely and all storage cupboards and filing cabinets are locked when not in use.
- There is evidence that expenditure is for the benefit of service users.

Areas for Development

- There is currently no letting policy in place that would allow the services to rent rooms to other organisations. We understand that the services are aware of the issue and are currently working to put this in place.
- Review of the utilisation of the Day Services found a common issue surrounding the take up of the service. This may be linked to local business not being in place to help shape the service moving forward.
- Two of the Day Service Centres we visited were primarily focused on delivery to particular ethnic minorities to the exclusion of others, which presents concerns surrounding equality and diversity.

Prospects for Improvement

- Managers at the establishments visited have responded positively to the issues raised in their individual audit reports and have either implemented actions immediately or developed appropriate action plans to address them.

Summary of Management Responses

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

Appendix B - Audit Plan 2017/18 Progress

Project	Progress at March 2018	Date to G&A	Overall Assessment	Project	Progress at March 2018	Date to G&A	Overall Assessment
Core Assurance							
Business Continuity	Draft Report			Transformation & Change – 0-25 follow up	Postponed to 2018/19		
Performance Management, KPI's/Data quality	Planning			Transformation and Change – Adults phase 3 - Advisory	In Progress		
Risk Management	In progress			Transformation & Change – Business Service Centre - Advisory	In progress		
Annual Governance Statement	Complete	July 2017	Adequate/ Good	Transformation & Change – Checkpoint Reviews - Advisory	As required	n/a	n/a
Information Governance	Complete	April 2018	Adequate/ Good	Transformation & Change – Change capacity and knowledge transfer	Complete	April 2018	Substantial/ Good
Learning the lessons of LATCO's	Complete	January 2018	Limited/Good	Declarations of Interest Priority 2			
Bribery & Corruption (follow up)	Complete	July 2017	Adequate/ Good	Income generation/ Commercialisation v business as usual Priority 2			
KCC Corporate Governance	In progress			Data Protection (including General Data Protection Regulations) GDPR element – Advisory Priority 2	Complete	January 2018	Adequate/ Good
Directorate Governance Review – Children, Young People and Education	Postponed to 2018/19 NOTE, replaced by Adults governance review			Service User feedback & engagement (KCC-wide) Priority 2			
Strategic Commissioning – new arrangements - Advisory	Deferred to 2018/19 due to restructure			Directorate Governance Review – Adults Addition to plan in place of CY review	In progress		

Project	Progress at March 2018	Date to G&A	Overall Assessment	Project	Progress at March 2018	Date to G&A	Overall Assessment
Core Financial Assurance							
Revenue Budget Monitoring	Complete	April 2018	Substantial/ Good	Cashiers & Bank Reconciliations	Complete	November 2017	Substantial/ Good
Schools Financial Services	Planning			T.D.M. System (for domiciliary care payments)	Cancelled – system being replaced		
Treasury Management	Complete	November 2017	High/ Good	Accounts Receivable Follow-Up Priority 2			
Financial Assessments	Complete	November 2017	Limited/ Good	Client Financial Affairs (KCC as Appointee) Priority 2			
Risk/Priority Based Audit							
Members Induction and Training	Complete	November 2017	Adequate/ Adequate	Young carers - contract management Priority 2	Complete	January 2018	Adequate/ Good
Apprenticeship Levy	Complete	April 2018	Substantial/ Good	Adults and Children's Finance Processes - Advisory Priority 2			
Use of Agencies and IR35	Complete	January 2017	Adequate/ Good	Domiciliary Care Priority 2	Replaced by Home Care Contractor investigation	January 2018	N/A
KCC Payroll	Complete	January 2018	Substantial / Very Good	Redesign of 26+ Service – consultancy - Advisory Priority 2			
Developer Contributions (section 106 & CIL payments)	Deferred to 2018/19			DCALDMH Service Provision redesign - Advisory Priority 2			

Project	Progress at March 2018	Date to G&A	Overall Assessment	Project	Progress at March 2018	Date to G&A	Overall Assessment
TFM Follow-up	Planning			Direct payments analytical review – Advisory Priority 2	Planning		
Health & Safety	In progress			Residence Arrangements – IFA & Residential – including placements and payments Priority 2	Deferred to 18/19		
Grants Administration Follow-up	Complete	January 2018	Adequate/ Adequate	Troubled Families Returns	Ongoing		
Property Income Management Priority 2	Complete	January 2018	No/ Uncertain	Education Services Company - Advisory	Ongoing		
KNet and Website – including online payments Priority 2				School Themed Review – Payroll and Income	Complete (Draft Report)	April 2018	Substantial/ Adequate
CC Recruitment/ entry controls Priority 2				SEN Transport	Postponed to 2018/19	N/a	N/a
Recruitment and retention incentives (Social Care) Priority 2				EY systems Post-implementation	Postponed to 2018/19	N/a	N/a
Contract management of GEN2 (including capital projects and data control) Priority 2				EHU revised model and outcomes	Cancelled due to Ofsted outcome		
Quality of Care themed review	Planning			Children’s Centres themed review follow-up	Complete	November 2017	Substantial/ Good
LD Lifespan Pathway Post Implementation	Deferred to 2018/19			Youth Justice Priority 2			

Project	Progress at March 2018	Date to G&A	Overall Assessment	Project	Progress at March 2018	Date to G&A	Overall Assessment
Adult Safeguarding Follow-up	Complete	November 2017	Substantial/ Good	Front door - CRU & Triage integrated model Priority 2			
MCA/DoLS Follow-up	Complete	November 2017	Adequate/ Adequate	Economic Development inc Regional Growth Fund	In progress		
Protection of Property	Complete	April 2018	Adequate/ Good	Local Growth Fund –phase 3 inc Major Highways Project Management Priority 2	Included in Economic Development audit		
Swift replacement project – consultancy - Advisory	Ongoing			Carbon Reduction Commitment – annual review	Complete	January 2018	Compliant
Disabled children - direct payments and managed service	In Progress			BDUK –watching brief – Advisory	Ongoing		
Foster Care - dependent on outcomes of service review could inc recruitment of foster carers	Cancelled due to Ofsted outcome			Kent Resilience Team Follow-Up Priority 2			
No Recourse to Public Funds	Complete	November 2017	Adequate/ Good	Contract Management in Libraries, Registration and Archives Priority 2			
Residence Arrangements 16+ (SAIFE) including placements and payments	In progress			Street Work Income Priority 2			
Childrens' Allowance Review Team inc SGOs	Complete (Draft Report)	April 2018	Limited/ Adequate	Establishments – OPPD Day Services	Complete (Draft Report)	April 2018	Adequate/ Good
ICT Audit							
ICT Strategy and Governance	Complete	November 2017	Substantial/ Good	Mobile Working Priority 2	Completer	January 2018	Substantial/ Good
Cloud Navigation – Programme Governance	Complete	November 2017	Limited/ Good	Software Licensing Priority 2			

Project	Progress at March 2018	Date to G&A	Overall Assessment	Project	Progress at March 2018	Date to G&A	Overall Assessment
Cloud Navigation – Watching Brief and Project Milestone Deep Dive	Complete	April 2018	Substantial/ Good	ISO27001 – BSC Readiness Assessment Priority 2			
ICT Asset Management	Complete	April 2018	Substantial/ Good	Cloud Navigation – Programme Governance Follow-up	Complete	January 2018	Substantial/ Good
Other							
Discharge to Assess – addition to plan	Complete	April 2018	Limited/d Adequate	Establishments – OPPD Day Care theme	Complete	April 2018	Adequate/ Good
Establishments – Nurseries theme	Complete	November 2017	Adequate/ Good				

Appendix C - Internal Audit Assurance Levels

Assurance opinion	Definition
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.

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

To: Governance and Audit Committee – 24 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 and developments in 2017 - 18 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 2017-18 was approved by full Council on 9 February 2017
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 and a copy of the February 2018 report is attached in Appendix 1.

EXTERNAL CONTEXT

6. The significant economic event was the increase in the Bank Rate in November by 0.25% to 0.50%, making it the first increase by the Bank of England's Monetary Policy Committee (MPC) to rates since July 2007. The vote to increase the Bank Rate reflected the MPC's growing concern that rising inflation had finally outweighed the risks to growth and largely to meet expectations the Bank itself created.
7. The FTSE 100 rose, reaching yet another record high of 7,777 in early January 2018 before falling back in recent weeks to 7,056 at the end of March. Money market rates increased: 1-month, 3-month and 12-month London Interbank Bid Rate (LIBID) rates have risen to 0.39%, 0.59% and 0.88% in the period to the end of March 2018

8. The Consumer Price Inflation (CPI) index rose to 3.01% by the end of November, its highest since March 2012, as companies passed on the higher costs stemming from the lower level of sterling. It has subsequently fallen a little to 2.7% in February. CPIH (a new measure which includes owner occupier housing costs) shows a similar trend peaking at 2.8% between September and November 2017 before falling a little to 2.5% in February.
9. 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.

REGULATORY UPDATES

Implementation of the Markets in Financial Instruments Derivative (MiFID II)

10. Following the introduction of MiFID II from 3 January 2018, local authorities were able to "opt up" to professional client status, providing that they met certain criteria including having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority having at least a year's relevant professional experience. The Council has met the conditions to opt up to professional status and has done so in order to maintain its MiFID II status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

CIPFA Consultation on Prudential and Treasury Management Codes

11. CIPFA published the two revised codes in late December 2017 for implementation in 2018/19. Changes to the Prudential Code include the requirement for a new Capital Strategy report and changes to prudential indicators. Changes to the Treasury Management Code include non-treasury investments such as commercial investments in property being included in the definition of "investments".

New Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance and Minimum Revenue Provision (MRP) Guidance

12. In February 2018 MHCLG published revised guidance on Local Authority Investments and MRP following a consultation in 2017. The intention is that these changes come into force for the 2018/19 financial year.
13. Investments now include all the financial assets of the authority as well as non-financial assets held for the primary purpose of generating income including investment properties and loans. The guidance also covers the issues of security and liquidity of investments as well as more detailed risk assessment.
14. The new guidance on MRP includes an updated definition of MRP provision and guidance on asset lives but does not propose changes to the methods of calculation.

BORROWING STRATEGY

15. At 28 February 2018 the Council had total debt outstanding of £939.11m a reduction of £26.39m from the balance as at 31 March 2017. The following table shows the movement by lender.

	31/3/2017 Balance £m	2017/18 Movement £m	28/02/2018 Balance £m	Weighted Average Rate %	Value waited Average Life (yrs)
Public Works Loan Board	504.3	-31.02	473.28	5.44%	17.21
Banks (LOBO)	160	-10.00	150.00	4.03%	44.29
Banks and other institutions (Fixed Term)	301.2	14.63	315.83	4.12%	37.78
Total Borrowing	965.5	-26.39	939.11	4.77%	28.45

16. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective
17. The benefits of internal borrowing are monitored regularly against the potential for incurring additional costs and the Council's Treasury Advisor, Arlingclose has assisted it with this 'cost of carry' and breakeven analysis. The Council's strategy has enabled it to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
18. KCC continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The total value of these loans fell to £150m at the end of August as the result of RBS' decision to waive its options on a £10m loan agreed in December 2009, converting it into a fixed rate loan and assigning it to Phoenix Life Assurance Ltd.
19. By the end of February the Council had received £24.13m of the total £40m funding agreed for the County's street lighting replacement project and received a further £4.3m by the end of March 2018. Of the total borrowed to date some £22m has been an interest free loan provided by Salix Ltd.
20. 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 4.77%.
21. 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.
22. 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.

INVESTMENT ACTIVITY

23. The Council's average investment balances to date have amounted to £309m, representing income received in advance of expenditure plus balances and reserves held.
24. 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.
25. Security of capital has remained the Council'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 2017-18. During August and September 2017 the Council moved £55m from bank deposits into pooled investment funds
26. Internally managed investments have achieved an average return of 0.74% over the 9 month period.

Statement of investments

27. A statement of investments as at 29 March 2018 is attached in Appendix 2. This statement is circulated to members of the Treasury Management Advisory Group every Friday.

Icelandic Deposits

28. As a result of the repatriation of monies held in escrow accounts in Iceland in June 2017 KCC has recovered £52.6m, some £600k higher than the total of the original deposits. £372k remains outstanding from Heritable Bank.

RECOMMENDATION

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

Alison Mings
Treasury and Investments Manager
Ext: 03000 416488

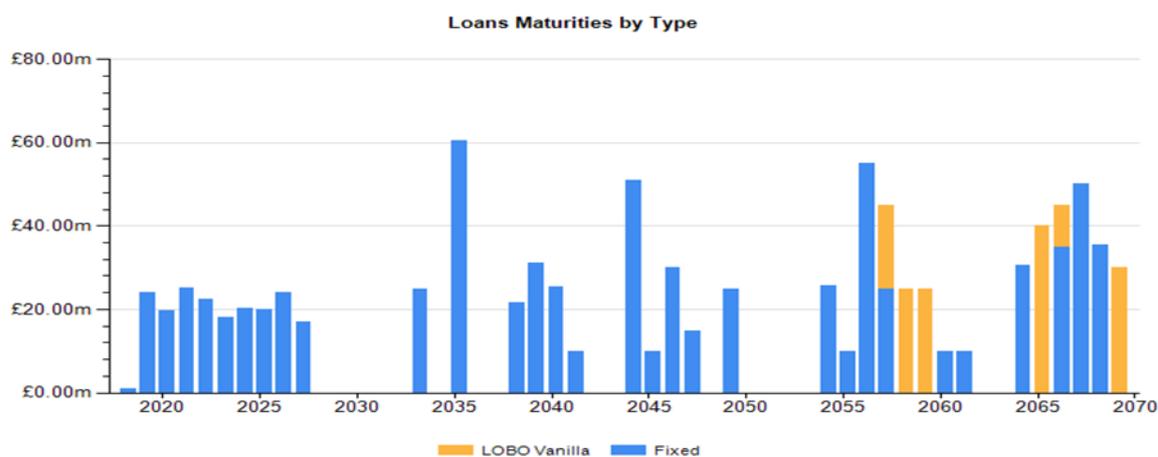
Treasury Management Report for the month of February 2018

1. Borrowing

- 1.1 The total amount of debt outstanding at the end of February was £939.1m following the repayment in the month of £25m of PWLB maturing loans and a £10m short term loan, and receipt of a new £2.2m loan in respect of the Council's streetlighting project. The following table shows the current borrowing analysed by lender.

	28/02/2018 Balance £m	Average Rate %	Value weighted Average Life (yrs)
Public Works Loan Board	473.28	5.44%	17.21
Banks (LOBO)	150.00	4.03%	44.29
Banks and other lenders (Fixed Term)	315.83	4.12%	37.78
Total borrowing	939.11	4.77%	28.45

- 1.2 The maturity profile of KCC's outstanding debt is as follows:



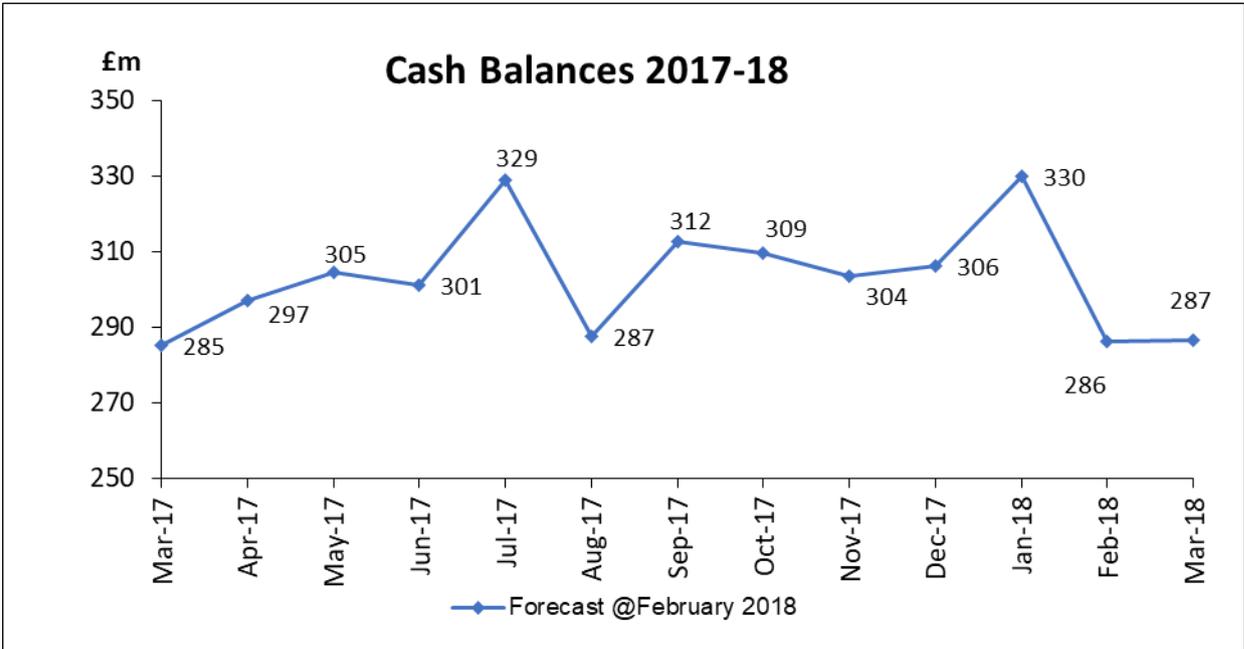
- 1.3 The Council's strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles.

Total long-term debt managed by KCC includes £35.54 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 (£0.29m), Magistrates Courts (£0.28m).

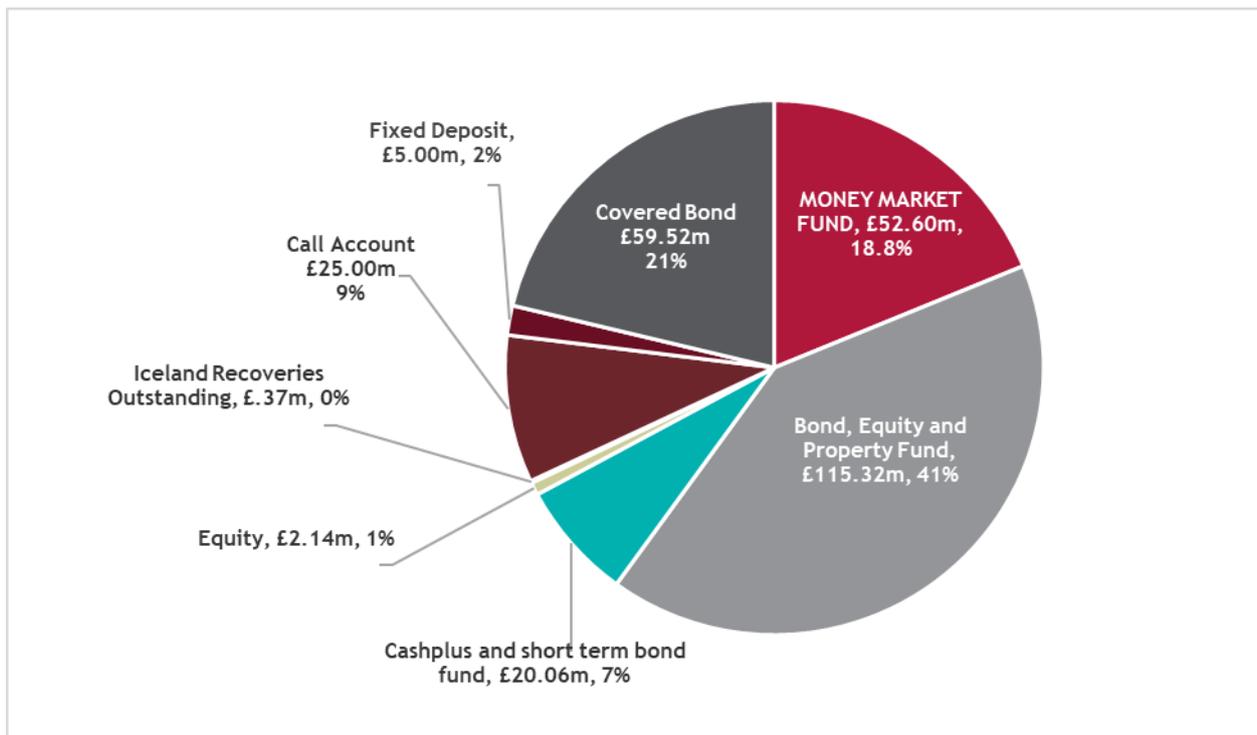
2. Investments

2.1 Cash Balances

During February the value of cash under management fell to £286m. Future cashflows are forecast as follows:



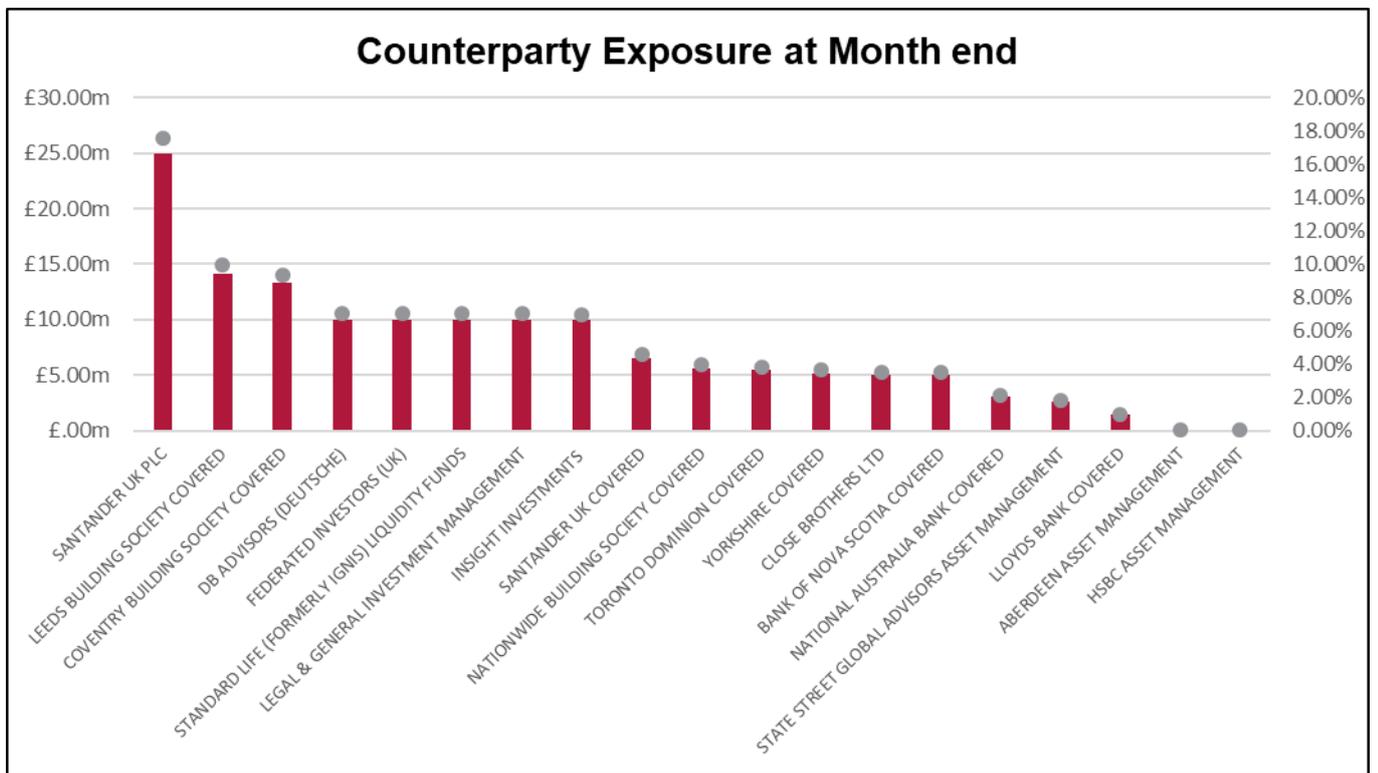
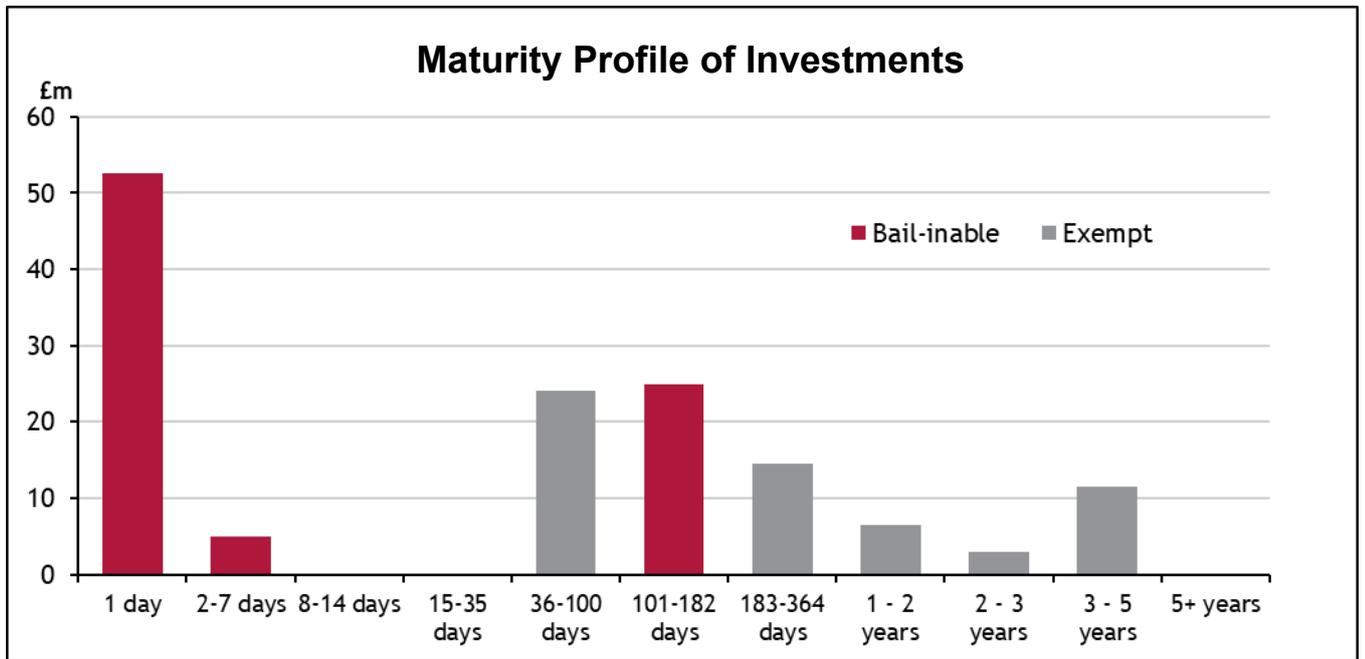
2.1 Type of investment at month end



2.2 Internally managed cash

2.2.1 The rate of return on investments held at month end of 0.74% vs the target return 7-day LIBID of 0.3603%.

2.2.2 The maturity profile of KCC’s investments and counterparty exposure are shown in the following charts.



2.3.3 Credit Score matrix

The Council's credit scores are detailed in the following table.

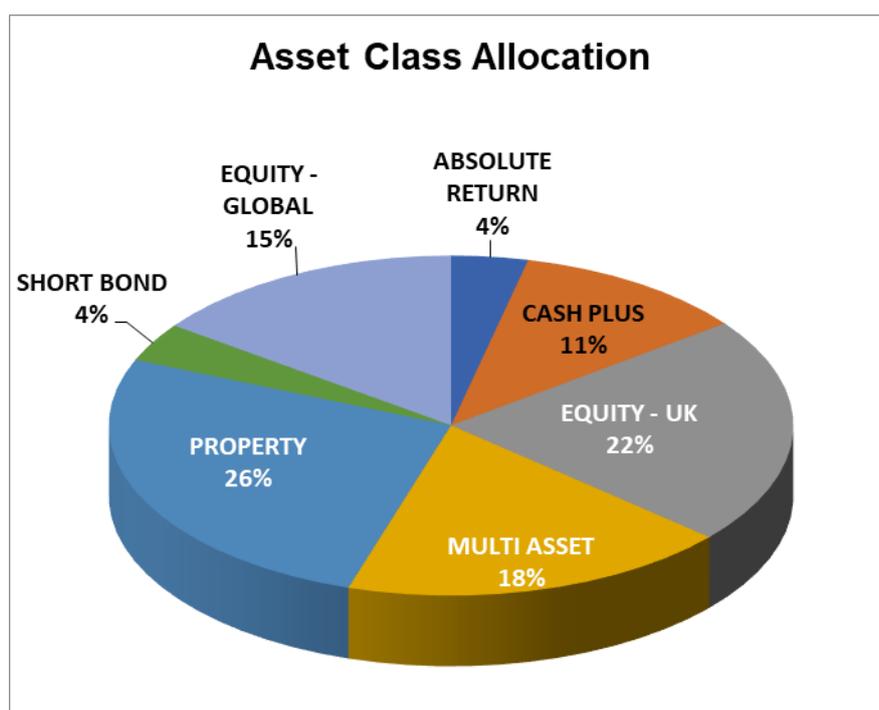
	Credit Rating	Credit Risk Score
Value Weighted Average	AA	3.24
Time Weighted Average	AA+	1.64

3. Externally managed Investments

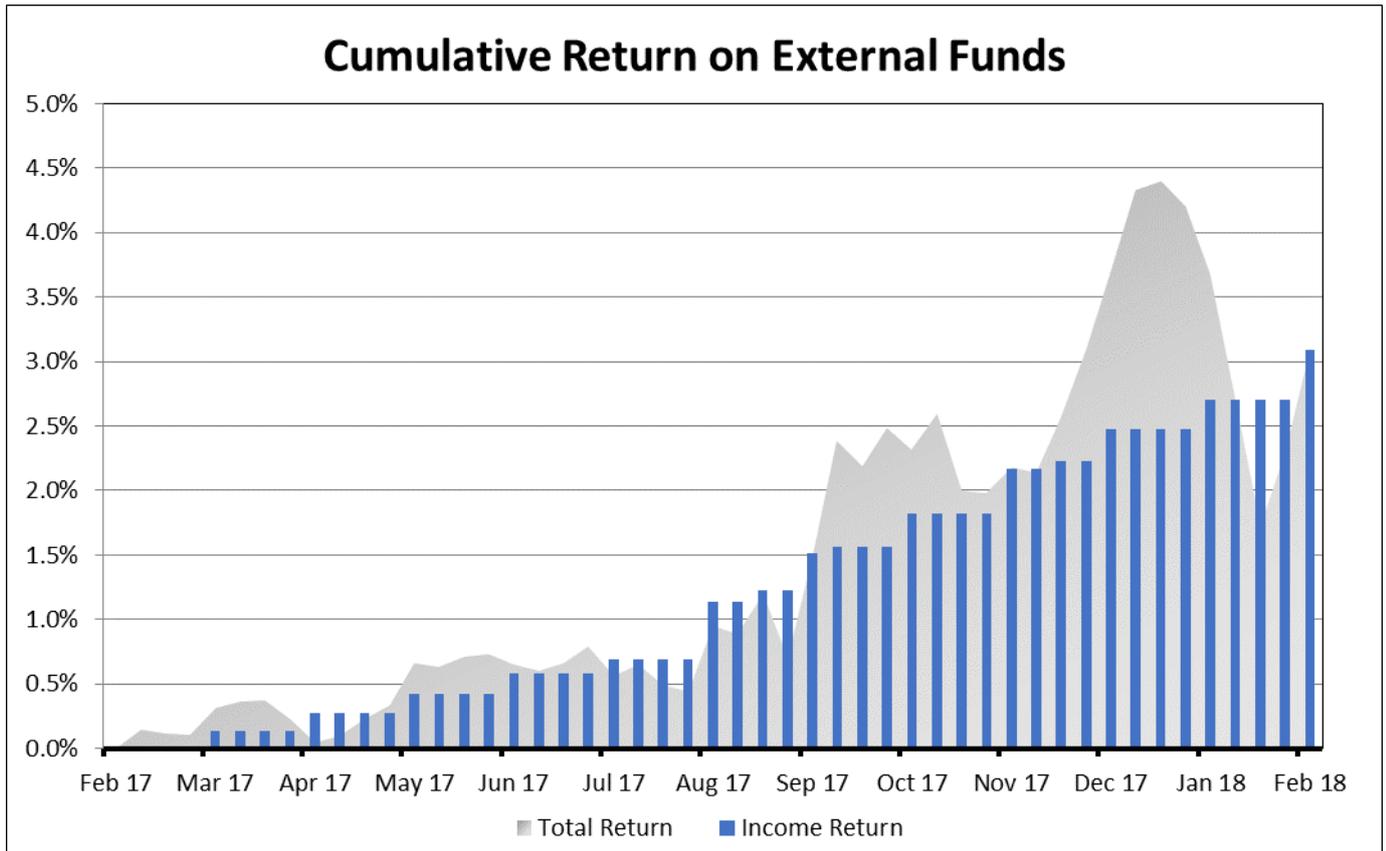
3.1 At the end of February 48% of total investments were held in externally managed funds as per the table below.

	Book cost (£000)	Market Value at 28 February 2018 (£000)	12 months return to 28 February 2018	
			Income	Total
CCLA Property Fund	35,000	35,973	4.33%	6.34%
Pyrford Global Total Return Sterling Fund	5,000	4,906	2.16%	-1.30%
Fidelity Multi Asset Income Fund	25,000	25,032	3.74%	1.01%
Schroder Income Maximiser Fund	20,000	20,197	4.94%	6.95%
M&G Global Dividend Fund	10,000	10,390	2.49%	6.32%
Threadneedle Global Equity Income Fund	10,000	9,935	1.41%	0.76%
Threadneedle UK Equity Income Fund	10,000	9,441	1.93%	-3.66%
Cashplus / Short Term Bond Funds	20,000	20,057	0.23%	0.39%
Bond, Equity and Property Funds	135,000	135,931	3.09%	3.11%

3.2 A breakdown of the external investments by asset class is as follows



3.3 The following chart tracks the returns earned over the 12 months to end February 2018.



Alison Mings
Treasury and Investments Manager
16 March 2018

Investments as at 29 March 2018

1. Internally Managed Investments

1.1 Term deposits and Money Market Funds

Instrument Type	Counterparty	Principal Amount	Interest Rate	Maturity Date
Fixed Deposit	Close Brothers	£5,000,000	0.80%	05/09/18
Fixed Deposit	North Wales Police and Crime Commissioner	£5,000,000	0.95%	23/05/18
Fixed Deposit	Redditch Borough Council	£4,000,000	0.95%	29/05/18
Fixed Deposit	DMADF	£600,000	0.25%	16/04/18
Fixed Deposit	DMADF	£2,450,000	0.25%	03/04/18
Total UK Bank Deposits		£17,050,000		
Money Market Fund	Aberdeen Sterling Liquidity Fund	£9,982,827	0.4204% (variable)	n/a
Money Market Fund	Deutsche Managed Sterling Fund	£9,993,729	0.4428% (variable)	n/a
Money Market Fund	Federated (PR) Short-term GBP Prime Fund	£9,985,998	0.50% (variable)	n/a
Money Market Fund	HSBC Global Liquidity Fund	£9,976,594	0.3329% (variable)	n/a
Money Market Fund	Insight Sterling Liquidity Fund	£9,922,941	0.3908% (variable)	n/a
Money Market Fund	LGIM Liquidity Fund	£9,981,589	0.4269% (variable)	n/a
Money Market Fund	SSgA GBP Liquidity Fund	£9,991,217	0.3918% (variable)	n/a
Money Market Fund	Standard Life Sterling Liquidity Fund	£9,984,853	0.6399% (variable)	n/a
Total Money Market Funds		£79,819,748		
Equity and Loan Notes	Kent PFI (Holdings) Ltd	£2,135,393		
Icelandic Recoveries outstanding	Heritable Bank Ltd	£366,905		

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Coupon Rate	Maturity Date
Fixed Rate Covered Bond	Bank Of Nova Scotia	£4,987,436	0.88%	14/09/2021
Fixed Rate Covered Bond	Coventry Building Society	£3,079,278	1.93%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£5,142,465	1.73%	19/04/2018
Fixed Rate Covered Bond	Coventry Building Society	£2,061,088	1.52%	19/04/2018
Floating Rate Covered Bond	Coventry Building Society	£3,004,144	0.56%	17/03/2020
Fixed Rate Covered Bond	Leeds Building Society	£5,579,421	0.63%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£2,043,411	2.03%	17/12/2018
Fixed Rate Covered Bond	Leeds Building Society	£1,514,308	1.19%	17/12/2018
Floating Rate Covered Bond	Leeds Building Society	£5,000,000	0.74%	01/10/2019
Floating Rate Covered Bond	Lloyds - Bonds	£1,402,406	0.58%	18/07/2019

Floating Rate Covered Bond	Lloyds - Bonds	£2,503,664	0.90%	27/03/2023
Floating Rate Covered Bond	Lloyds - Bonds	£2,504,890	0.89%	27/03/2023
Fixed Rate Covered Bond	National Australia Bank	£3,002,504	1.10%	10/11/2021
Floating Rate Covered Bond	Nationwide Building Society	£2,149,563	0.82%	27/04/2018
Floating Rate Covered Bond	Nationwide Building Society	£3,428,245	0.70%	27/04/2018
Fixed Rate Covered Bond	Santander UK	£3,528,063	0.65%	14/04/2021
Floating Rate Covered Bond	Santander UK	£3,000,402	0.75%	29/05/2018
Floating Rate Covered Bond	Toronto-Dominion Bank	£5,452,902	0.95%	01/02/2019
Fixed Rate Covered Bond	Yorkshire Building Society	£3,094,680	1.55%	12/04/2018
Fixed Rate Covered Bond	Yorkshire Building Society	£2,054,403	1.98%	12/04/2018
Total Bonds		£64,533,273		.

Total Internally managed investments	£163,905,319
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2. Externally Managed Investments

Total External Investments per appendix 1	£135,930,952
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3. Total Investments

Total Investments	£299,836,271
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By: Cabinet Member for Finance – John Simmonds
Corporate Director of Finance – Andy Wood

To: Governance and Audit Committee – 24 April 2018

Subject: Revised Accounting Policies

Classification: Unrestricted

Summary: This report asks Members to note that there have been no proposed revisions to accounting policies

FOR ASSURANCE

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. For 2017-18 there are no changes to the accounting policies to report.

3. **Recommendation**

Members are asked to note that there are no changes recommended to the accounting policies.

Cath Head
Head of Finance Operations
03000 416934

Emma Feakins
Chief Accountant
03000 416082

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

To: Governance and Audit Committee – 24 April 2018

Subject: Updated Financial Regulations

Classification: Unrestricted

Summary: This report summarises the updated financial regulations, prior to approval by 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 Constitution itself and 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. This may need further review once the review of the Constitution has been completed;
 - 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 and Scheme of Delegation can be seen in detail at Appendices A and B, as they are presented showing all tracked changes.
- 2.3 The main areas of change to highlight are:

Within the Financial Regulations:

- The role of the Head of Paid Service - has been amended to match the wording of the Constitution. (Ref. Introduction, Para 2.8 (i))
- The role of the Corporate Director of Finance, as the Chief Financial Officer - has been updated to reflect the changes in relevant legislation. (Ref. Introduction, Para 2.9 (vi, vii, viii, ix))
- Regulation relating to Capital Programme and capital budgeting – has been revised in relation to schemes where the total cost is estimated to be less than £1m. The revision reflects the revised approval process. (Ref. Section A.23 (iii))
- The regulation relating to Imprest Accounts – has been amended to include Purchase Card Cash (Ref. Sections C.29 and C.30)
- The regulation relating to the Ordering and Paying for Works, Goods and Services – has been amended to reflect a change in process (Ref. Section D.10 (viii))

Within the Scheme of Delegation:

- The scheme has been amended to reflect changes in organisational structure. 'Finance and Procurement' has become 'Finance', 'Strategic Sourcing and Procurement' has become 'Strategic Commissioning' and job titles have been amended accordingly.
- Note 19 has been added to allow directorates to delegate authority to the Strategic Commissioning Team for specified activities up to the value of £500k. This reflects the authority that individual commissioning units held within individual directorates prior to the restructure.

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

25 May 2017

TBA

June 201~~8~~⁷

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D – Systems and Procedures	30
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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 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 and Financial implications of Reports.

The Corporate Director of Finance 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 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 and 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 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 and Internal Recharges.

The Corporate Director of Finance 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

E. External Arrangements

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

The Corporate Director of Finance 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 General Counsel, as the Monitoring Officer](#) is responsible for:

- i. after consulting with the Head of Paid Service and the Corporate Director of Finance, 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 [including Chief Officers](#));
- 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, 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~~ [Regulations 2016](#)
- vii. [The Local Government Pension Scheme Regulations 2013](#)
- viii. [The Local Government Pension Scheme Transitional Regulations 2014](#)
- ix. [The Local Authorities Goods and Services Acts 1970 and 1988.](#)

2.10 The Corporate Director of Finance 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;
- 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.

2.12 The, Corporate Director of Finance 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;
- 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 in their Directorates and to monitor adherence to standards and practices, liaising as necessary with the Corporate Director of Finance;
- 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 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, are legal and consistent with best practice and Council policy;
- xi. consulting with the Corporate Director of Finance 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
- 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. 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 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 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. 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. 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. 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.

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 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 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 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 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 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.

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.

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.

A.20 The Head of Paid Service and Corporate Director of Finance 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 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 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 the relevant Cabinet Member and the Cabinet Member for Finance 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. This includes ensuring that projects only proceed when they have received the necessary [Project Advisory Group \(PAG\) approvals \(from Project Advisory Group \(PAG\) and any other internal or formal governance routes required\)](#) 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. 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 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) 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 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 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.

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- A.26 The Corporate Director of Finance 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 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 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 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 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 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 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.
From £200,000 up to (but not including) £1m	the relevant Cabinet Member in agreement with the Cabinet Member for Finance, Corporate Director and Corporate Director of Finance.
£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.
From £200,000 up to (but not including) £1m	the relevant Cabinet Members in agreement with the Cabinet Member for Finance, relevant Corporate Directors and Corporate Director of Finance.
£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(vii) 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 has agreed the basis and the terms, including financial limits, on which it will be allocated.

B.11 The Corporate Director of Finance 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 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 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 for inclusion in the report to Cabinet on the overall Capital programme position;
- iii. reporting to the Corporate Director of Finance 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 on any proposed variations to the Capital Programme during a financial year;
- v. reporting to the Corporate Director of Finance 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.

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
£200,000 up to (but not including) £1m	the relevant Cabinet Member(s) in agreement with the Cabinet Member for Finance, Corporate Director(s) and Corporate Director of Finance
£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 is responsible for selecting and notifying to the Corporate Directors accounting policies which comply with the current Accounting

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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.

Accounting records and returns

B.19 The Corporate Director of Finance 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 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, 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;
- 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;
- 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 requires in relation to the Directorate accounts;
- vii. operating control accounts as agreed by the Corporate Director of Finance, 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 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;
- ii. supplying the Corporate Director of Finance 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.

Contingent Liabilities

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

- i. advising the Leader, Cabinet Member for Finance and Cabinet on proper insurance cover where appropriate;
- ii. effecting, in consultation with the Cabinet Member for Finance, 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 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 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 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.

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 is responsible for ensuring that processes are in place for maintaining asset registers for fixed asset 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 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. All sums above £10,000 should be reported by the relevant Corporate Director to the Corporate Director of Finance and Cabinet Member for Finance 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 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 is responsible for:

- i. reporting to the Cabinet Member for Finance, 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, 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 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 Cabinet Member for Finance.

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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 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 in accordance with issued guidelines.

Imprest Accounts and Purchase Card Cash

C.29 The Corporate Director of Finance is responsible for providing, in agreed circumstances and where such need is proven to be essential, cash or bank imprest accounts or purchase cards enabled for cash withdrawals, to meet minor or other agreed expenditure and for prescribing procedures for operating these accounts. [Operating an Imprest Account / Purchase Card Cash Systems](#)

C.30 The Corporate Directors are responsible for the operation of approved cash and bank imprest accounts and Purchase Card cash systems in accordance with procedures issued by the Corporate Director of Finance. [Operating an Imprest Account / Purchase Card Cash Systems](#)

Credit Cards and Purchase Cards

C.31 The Corporate Director of Finance 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.

Card Payment Arrangements

C.33 The Corporate Director of Finance 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

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;

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- 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 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;
- ii. obtaining the approval of the Corporate Director of Finance 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 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;
- vii. ensuring that vouchers and documents with financial implications are not destroyed, except in accordance with arrangements agreed with the Corporate Director of Finance.

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 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 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 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 [1980](#) 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 in his role of Section 151 Officer for his decision in consultation with the Cabinet Member for Finance. 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;
 - ii. the write-off of irrecoverable debts in their Directorates of up to £10,000 in consultation with the Corporate Director of Finance;
 - 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 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 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. 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 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;
- 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~~ are included in the Payments Team Flexfield Checker;
- ix. ensuring that all undisputed invoices are settled within 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 (How to Buy) and complying with the Council's Code of Practice for Tenders and Contracts which is incorporated in the KNet Procurement pages.
- xi. Compliance with spend mandates, which are published in the Procurement (How to Buy) guides accessible via the Knet Procurement page.

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.

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 Cabinet Member for Finance and the Corporate Director of Finance.

Payments to employees and Members

D.19 The Corporate Director of Finance 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 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 on the potential tax implications of any new initiatives for the delivery of Council activity and Services, including those that could impact on our partial exemption.

Trading accounts

D.25 The Corporate Director of Finance 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 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.

FINANCIAL REGULATION E – EXTERNAL ARRANGEMENTS

Partnerships

- E.1 The Corporate Director of Finance 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 Management Guide to Managing Risk, the Management Guide to Alternative Service Delivery Models and the KCC Companies Protocol

External funding

- E.3 The Corporate Director of Finance 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.

Work for third parties

- E.5 The Corporate Director of Finance 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 is complied with and that all agreements and arrangements are properly documented.
- E.7 The Leader or relevant Cabinet Member is responsible for approving the contractual arrangements for any work for third parties or external bodies where the contract value exceeds £200,000.

Companies

- E.8 In relation to companies that the Council has an interest, it is imperative that they are set up, managed and run according to rules of good governance so that risks are mitigated. The Protocol relating to companies in which KCC has an interest establishes processes and provides additional controls to ensure such rules are in place.
- E.9 Anyone within the Council intending to set up a company must first read both the Protocol relating to companies in which KCC has an interest and the more detailed Local Authority Companies guidance document. Sanctions are in place for non-compliance which can include disciplinary action.

E.10 The Corporate Director of Finance is responsible for advising on the financial implications resulting from the creation of a company including tax treatment and accounting arrangements.

E.11 The General Counsel 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 in which KCC has an interest and the more detailed Local Authority Companies guidance document is complied with;
- ii. ensuring that legal and financial advice provided by the General Counsel and the Corporate Director of Finance respectively are complied with.

Scheme of Delegation - Approval Limits

Finance Approval Process

Stage or Transaction Approval	Notes	Members		Officers				Strategic Sourcing & Procurement Team (SSP) Strategic Commissioning				
		The Leader or Cabinet	Cabinet Member	CMT Director	Service Director	Service Head	Budget Manager	Head of Procurement-Commissioning Portfolio Outcome / Head of Commissioning Support	Category Senior Commissioning Manager / Commercial Manager	Procurement-Manager-Commissioner / Commercial Officer / Indirect Procurement Manager	Procurement-Officer-Commercial Advisor	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								

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Procurement & Invoice Approval Process

Stage or Transaction Approval	Notes	Members		Officers				Strategic Sourcing & Procurement Team (SSP) Strategic Commissioning				
		The Leader or Cabinet	Cabinet Member	CMT Director	Service Director	Service Head	Budget Manager	Head of Procurement-Commissioning Portfolio Outcome / Head of Commissioning Support	Category Senior Commissioning Manager / Commercial Manager	Procurement-Manager-Commissioner / Commercial Officer / Indirect Procurement Manager	Procurement-Officer-Commercial Advisor	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, 19			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, 19	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							

Procurement & Invoice Approval Process

Stage or Transaction Approval	Notes	Members		Officers				Strategic Sourcing & Procurement Team (SSP) Strategic Commissioning				
		The Leader or Cabinet	Cabinet Member	CMT Director	Service Director	Service Head	Budget Manager	Head of Procurement-Commissioning Portfolio Outcome / Head of Commissioning Support	Category Senior Commissioning Manager / Commercial Manager	Procurement-Manager-Commissioner / Commercial Officer / Indirect Procurement Manager	Procurement-Officer-Commercial Advisor	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, 19			Unlimited with Cabinet or Cabinet Member Decision to award variation and express authorisation of the Monitoring Officer to sign or seal*	Up to £1m and 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-Commissioning 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
- Head of Procurement Commissioning Portfolio Outcome / Head of Commissioning Support can sign for up to £500k where delegated in writing by the relevant service Director

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

To: Governance and Audit Committee – 24th April 2018

Subject: **External Audit – Update and Audit Plans for Kent
County Council and Kent Superannuation Fund
2017/18**

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 2017/18 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 2017/18
 - 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.

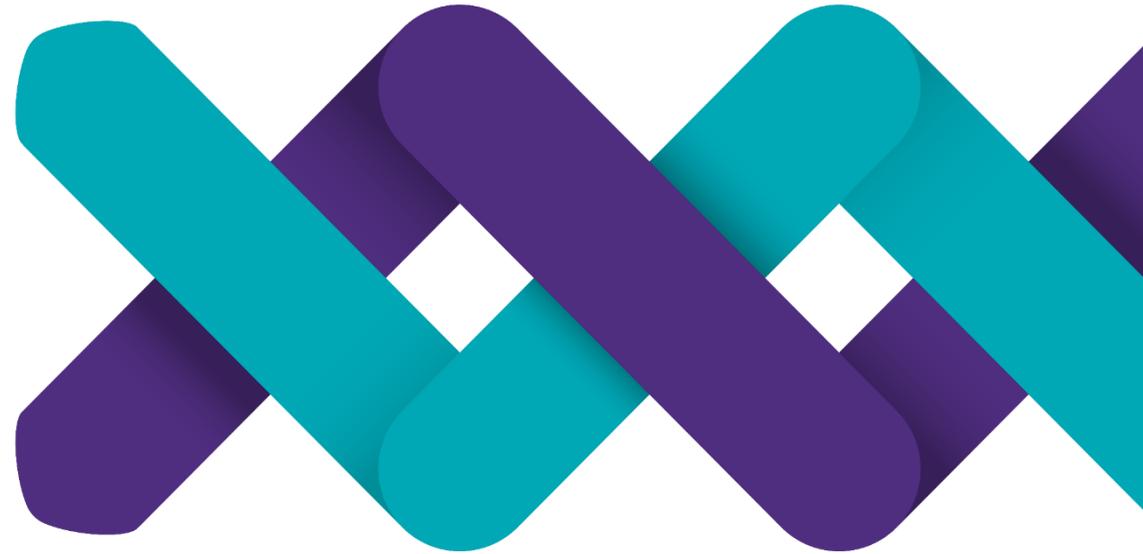
Recommendations

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 2017/18.

Robert Patterson
Head of Internal Audit
03000 416554

Audit Progress Report and Sector Update

Kent County Council
Year ending 31 March 2018
Page 169
24 April 2018



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Introduction



Paul Dossett

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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Engagement Manager

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

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



Progress at April 2018

Financial Statements Audit

We have started planning for the 2017/18 financial statements audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2017/18 financial statements.

We commenced our risk assessment and interim audit in December 2017, and this has continued through various interim visits during January to March 2018. Our interim fieldwork visit includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit are summarised at page 6-7.

The statutory deadline for the issue of the 2017/18 opinion is brought forward by two months to 31 July 2018. We are discussing our plan and timetable with officers.

The final accounts audit is due to take place in late June/July 2018 with findings reported to you in the Audit Findings Report by the earlier deadline of July 2018.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

We began our initial risk assessment to determine our approach in January 2017, and have completed this during February 2018 through subsequent meetings with your officers, review of your current financial position and review of your medium term financial. We have reported the results of this risk assessment to you in our Audit Plan.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2018.

Other areas

Certification of claims and returns

At the end of January 2018, we reported to your management the results of our agreed upon procedures work on the Teachers' Pensions End of Year Certificate for 2016-17. We reported no errors or exceptions in this Certificate.

Meetings

During January through to April, we have met with Finance Officers to continue our discussions regarding emerging developments and to ensure the audit process is smooth and effective particularly in ensuring that both teams are prepared to meet the 31 July 2018 accounts sign off deadline.

Publications

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	April 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Governance and Audit Committee.	July 2018	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Not yet due

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	Conclusions and recommendations
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>

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Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Review of information technology controls	<p>In each prior year, 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>IT (information technology) controls were observed to have been implemented in accordance with our documented understanding. During April our information systems specialist is scheduled to visit to update our review, confirm that the systems in place have not changed significantly and follow up any improvement points from the prior year.</p>	<p>Our work to date has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. Should any issues come to our attention in the April visit we will highlight these to the committee.</p>
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.</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>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have selected an early sample of the month 1-9 journals by extracting 'unusual' entries for further review and we will undertake detailed testing on journal during our interim visit at the March/early April. No issues have been identified that we wish to highlight for your attention.</p>	<p>We are currently testing a top-up sample for months 10 and 11, and we will complete our substantive testing of journals at our final fieldwork visit and report back any findings for your attention at the July 2018 Governance and Audit Committee meeting.</p>
Early substantive testing	<p>During our interim visit at the March/early April we will carry out the following early substantive testing:</p> <ul style="list-style-type: none"> - setting up our substantive analytical review and trend analysis for payroll expenditure - early substantive testing of a month 1-9 sample of operating expenditure - early substantive testing of a month 1-9 sample of other revenues - testing of opening balances of property plant and equipment - early testing of commercial services revenues and expenditure <p>No issues have been identified so far that we wish to highlight for your attention.</p>	<p>We are currently testing a top-up sample for months 10 and 11, and we will complete our substantive testing of these areas at our final fieldwork visit and report back any findings for your attention at the July 2018 Governance and Audit Committee meeting.</p>

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Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Governance and Audit Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

Financial sustainability of local authorities 2018

This National Audit Office report reviews financial sustainability across Local Government and examines whether the MHCLG, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

The report concludes that current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014, when the NAO first looked at financial sustainability. It also notes that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities' ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years' worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17.

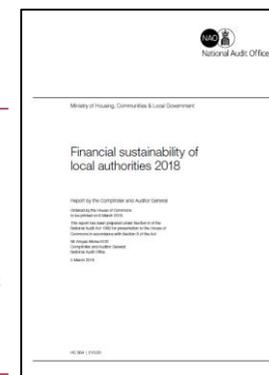
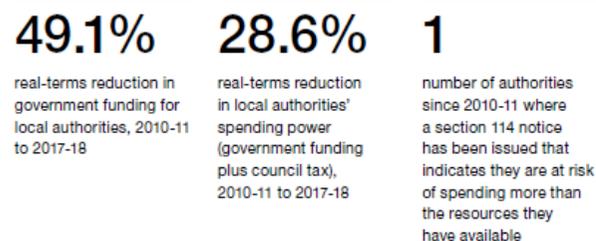
A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful.

MHCLG's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department's advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments.

The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer. The funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives.

There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Funding Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear.

There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.



Public Sector Audit Appointments: Report on the results of auditors' work 2016/17

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016/17. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

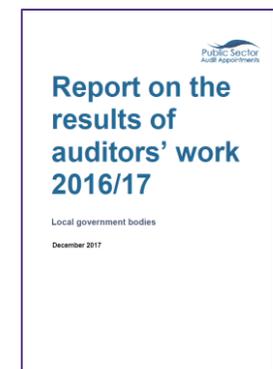
The timeliness and quality of financial reporting for 2016/17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. Compared with 2015/16, the number of principal bodies that received an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on their accounts by the end of July compared with 49 (10 per cent) for 2015/16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017/18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015/16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new reporting timetable from 2017/18. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015/16. The most common reasons for auditors issuing non-standard conclusions on the 2016/17 accounts were:

- the impact of issues identified in the reports of statutory inspectorates;
- corporate governance issues; and
- financial sustainability.

The latest results of auditors' work on the financial year to 31 March 2017 show a solid position for the majority of principal local government bodies. Generally, high standards of financial reporting are being maintained despite the financial and service delivery challenges currently facing local government.



Changes to the prudential framework of capital finance

The Ministry of Housing Communities and Local Government has updated the Local Authority Investments Guidance and the Minimum Revenue following its publication of consultation responses on 2 February 2018.

A total of 213 consultation responses were received by the MHCLG by the 22 December 2017 deadline from across local government. Following consideration of the responses the Government has:

- made some technical changes to the Investments Guidance and MRP Guidance
- amended proposals relating to useful economic lives of assets
- implemented the Investments Guidance for 2018-19, but allowed flexibility on when the additional disclosure first need to be presented to full Council
- deferred implementation of MRP Guidance to 2019-20 apart from the guidance “Changing methods for calculating MRP”, which applies from 1 April 2018.

Key changes are noted below.

Statutory Guidance on Local Authority Investments

Transparency and democratic accountability – the revised guidance retains the requirement for an Investment Strategy to be prepared at least annually and introduces some additional disclosures to improve transparency. However, as the changes to the CIPFA Prudential Code include a new requirement for local authorities to prepare a Capital Strategy, the revised guidance allows the matters required to be disclosed in the Investment Strategy to be disclosed in the Capital Strategy.

Principle of contribution – the consultation sought views on the introduction of a new principle requiring local authorities to disclose the contribution that non-core investments make towards core functions. Authorities’ core objectives include ‘service delivery objectives and/or placemaking role.’ This clarification has been made to recognise the fact that local authorities have a key role in facilitating the long term regeneration and economic growth of their local areas and that they may want to hold long term investments to facilitate this.

Introduction of a concept of proportionality – the Government is concerned that some local authorities may become overly dependent on commercial income as a source of revenue for delivering statutory services. The consultation sought views on requiring local authorities to disclose their dependence on commercial income to deliver statutory services and the amount of borrowing that has been committed to generate that income. A majority of respondents supported the introduction of a concept of proportionality, recognising the importance that local authorities make decisions based on an understanding of the overall risk that they face.

Borrowing in advance of need – by bringing non-financial investments (held primarily or partially to generate a profit) within the scope of the Investments Guidance, the consultation proposals made it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential. The Investment Guidance requires local authorities who have borrowed in advance of need solely to generate a profit to explain why they have chosen to disregard statutory guidance. It is also important to note that nothing in the Investment Guidance or the Prudential Code overrides statute, and local authorities will still need to consider whether any novel transaction is lawful by reference to legislation.

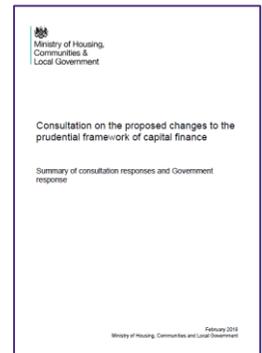
Minimum Revenue Provision Guidance

The consultation sought views on proposals to update the guidance relating to MRP to ensure local authorities are making prudent provision for the repayment of debt.

Meaning of a charge to the revenue account – the Government does not believe that crediting the revenue account is either prudent or within the spirit of the approach set out in the relevant Regulations. For this reason a charge to the account should not be a negative charge.

Impact of changing methods of calculating MRP – the Government does not expect any local authority to recalculate MRP charged in prior years due to the proposed changes in methodology.

Introduction of a maximum economic life of assets – the consultation sought views on setting a maximum useful economic life of 50 years for freehold land and 40 years for other assets. The MRP Guidance will set a maximum life of 50 years, but allow local authorities to exceed this where the related debt is PFI debt with a longer term than 50 years, or where a local authority has an opinion from an appropriately qualified person that an operational asset will deliver benefits for more than 50 years.



CIPFA publications - The Prudential Code and Treasury Management Code

CIPFA have published an updated 'Prudential Code for Capital Finance in Local Authorities'. Key developments include the introduction of more contextual reporting through the requirement to produce a capital strategy along with streamlined indicators.

The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable.

Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003, and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

Since the Prudential Code was last updated in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda. It reflects the increasing diversity in the sector and new structures, whilst providing for streamlined reporting and indicators to encourage better understanding of local circumstances and improve decision making.

The introduction of a capital strategy allows individual local authorities to give greater weight to local circumstances and explain their approach to borrowing and investment. The Code is available in hard copy and online.



CIPFA have also published an updated Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The Code provides a framework for effective treasury management in public sector organisations.

The Code defines treasury management as follows:

The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

It is primarily designed for the use of local authorities (including police and crime commissioners and fire authorities), providers of social housing, higher and further education institutions, and the NHS. Local authorities in England, Scotland and Wales are required to 'have regard' to the Code.

Since the last edition of the TM Code was published in 2011, the landscape for public service delivery has changed significantly following the sustained period of reduced public spending and the developing localism agenda.

There are significant treasury management portfolios within the public services, for example, as at 31 March 2016, UK local authorities had outstanding borrowing of £88bn and investments of £32bn

The Code is available in hard copy and online.



The adult social care workforce in England

This National Audit Office report considers the Department of Health & Social Care's role in overseeing the adult social care workforce and assesses whether the size and structure of the care workforce are adequate to meet users' needs for care now, and in the future, in the face of financial challenges and a competitive labour market.

The Department of Health and Social Care is not doing enough to support a sustainable social care workforce. The number of people working in care is not meeting the country's growing care demands and unmet care needs are increasing, according to the report. While many people working in care find it rewarding, there is widespread agreement that workers feel undervalued and there are limited opportunities for career progression, particularly compared with similar roles in health. In 2016-17, around half of care workers were paid £7.50 per hour or below (the National Living Wage was £7.20 in 2016-17), equivalent to £14,625 annually. This, along with tough working conditions and a poor image, prevents workers from joining and remaining in the sector.

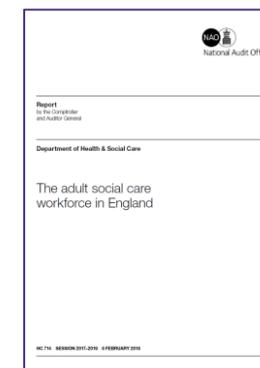
There are around 1.34 million jobs in the adult social care sector in England, across more than 20,300 organisations. The turnover rate of care staff has been increasing since 2012-13 and in 2016-17 reached 27.8%. The vacancy rate in 2016-17 for jobs across social care was 6.6%, which was well above the national average of 2.5%-2.7%. However, demographic trends suggest that demand for care will continue to increase and people's care needs will continue to become more complex. To meet these challenges, the Department estimates that the workforce will need to grow by 2.6% every year until 2035.

The social care market is operating in challenging circumstances. Care providers, already under financial pressures, are struggling to recruit and retain workers and are incurring additional costs as a result. Local authorities spent 5.3% less on care in 2016-17 compared with 2010-11, and spending is expected to reduce further over the next two years due to continued government funding cuts and increased financial pressures on local authorities. Uncertainty over funding is limiting local authorities' ability to plan future spending on care.

The Department cannot demonstrate that the sector is sustainably funded, which impacts workforce planning. Around 65% of independent providers' income comes from local authority-arranged care. The vast majority of local authorities are paying fees to homecare providers that are below the recommended minimum price for care, putting providers in financial difficulties. Furthermore, local authorities are not paying the full cost for care home placements. If this continues, there is a risk providers will not continue to invest in areas where there are high proportions of people receiving local authority funded care.

The Department has no national strategy to address this workforce challenge and key commitments it has made to help make the sector more attractive, through enhanced training and career development, have not been followed through. Furthermore, the NAO has not found any evidence that the Department is overseeing workforce planning by local authorities and local health and care partnerships, which commission care, to help with the challenge. Without a national strategy to align to, few local areas have detailed plans for sustaining the care workforce.

The NAO has recommended that the Department produces a robust national workforce strategy with the support of the Ministry of Housing, Communities and Local Government and that it encourages local and regional bodies to align their own plans to it. The Department also needs to invest more to enable commissioners to set appropriate fees for providers, so they can pay staff adequately and afford to offer career development and training opportunities.



Overview of the General Data Protection Regulation (GDPR)

What is it?

The GDPR is the most significant development in data protection for 20 years. It introduces new rights for individuals and new obligations for public and private sector organisations.

What's next?

Many public sector organisations have already developed strategic plans to implement the GDPR, which require policy, operational, governance and technology changes to ensure compliance by 25th May 2018.

How will this affect you?

- ✓ All organisations that process personal data will be affected by the GDPR.
- ✓ The definition of 'personal data' has been clarified to include any data that can identify a living individual, either directly or indirectly. Various unique personal identifiers (including online cookies and IP addresses) will fall within the scope of personal data

What organisations need to do by May 2018

- ✓ Local government organisations need to be able to provide evidence of completion of their GDPR work to internal and external stakeholders, to internal audit and to regulators.
- ✓ New policies and procedures need to be fully signed off and operational.

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Organisation Accountability

- Organisations must document their assurance procedures, and make them available to regulators
- Some organisations need to designate a Data Protection Officer, who has expert knowledge of data protection law

Notifications and Rights

- Organisations must notify significant data breaches to regulators within 72 hours
- Organisations must explain to individuals what their rights over their personal information are and how it is being processed and protected

Claims and Fines

- For the most serious data breaches, privacy regulators can impose penalties of up to €20 million on public sector organisations,
- Individuals and representative organisations can claim compensation for infringements of data protection law

Questions for your organisation:

- Can your organisation erase personal data effectively?
- Have you appointed a Data Protection Officer if required to have one?
- How will your organisation ensure citizens know how their data is being used and whether it's being shared with other organisations?

Commercial Healthcheck: commercial investments and governance

Our latest healthcheck report was launched at CIPFA's Income Generation Summit in November. It is part of our 'The Income Spectrum' series, giving leaders of local government and public services insights into why and how local authorities are changing their approach to commercialisation, some of the related governance and risk management issues, and the latest innovation trends with case studies ranging from Angus and Luton to Oldham and Stirling.

The research shows that councils need to do more than simply adhere to the drafted rules to ensure an approach to commercialisation that balances outcomes and risks. The report therefore also includes a healthcheck diagnostic tool designed to give local government leaders extra comfort and confidence that they are pursuing a suitably balanced approach

Governance of commercial commitments is key to building confidence in the path to financial sustainability. The CIPFA code is the sector's primary rule book for treasury management and is expected to place a stronger emphasis on how councils will balance security, liquidity and return.

Key findings from the report include:

- While property has tended to be the focus, it is just one of a number of areas of activity. In the past year, borrowing includes £4.8 billion on bonds and commercial paper, and investment includes £7 billion in inter-authority lending (Investment in property for councils is a growing trend – a third of councils have done so since 2010, spending more than £2.4 billion between them, but this is not the only major area of investment activity)
- More entrepreneurial councils are adopting innovative approaches such as place-based market offerings, working together locally to add social value and cross-boundary franchising
- For many councils, investing in commercial assets is key to developing anchor institutions that contribute to place – ranging from airports, business parks and forestry to GP surgeries and cinemas
- A 'beyond compliance' approach to governance of commercial activities is required by progressive councils wanting to do more with less

[Click on the report cover to download and read more](#)



Supply Chain Insights tool helps support supply chain assurance in public services

Grant Thornton UK LLP has launched a new insights and benchmarking platform to support supply chain assurance and competitor intelligence in public services.

The Supply Chain Insights service is designed for use by financial directors and procurement professionals in the public sector, and market leaders in private sector suppliers to the public sector. It provides users with a detailed picture of contract value and spend with their supply chain members across the public sector. The analysis also provides a robust and granular view on the viability, sustainability, market position and coverage of their key suppliers and competitors.

The platform is built on aggregated data from 96 million invoices and covers £0.5 trillion of spending. The data is supplemented with financial standing data and indicators to give a fully rounded view. The service is supported by a dedicated team of analysts and is available to access directly as an on-line platform.

Phillip Woolley, Partner, Grant Thornton UK LLP, said:

"The fall-out from the recent failure of Carillion has highlighted the urgent need for robust and ongoing supply chain monitoring and assurance. Supply Chain Insights provides a clear picture of your suppliers' activities across the sector, allowing you to understand risks, capacity and track-record. We think it's an indispensable resource in today's supplier market."



The tool enables you to immediately:

- access over 96 million transactions that are continually added to
- segment invoices by:
 - organisation and category
 - service provider
 - date at a monthly level
- benchmark your spend against your peers
- identify:
 - organisations buying similar services
 - differences in pricing
 - the leading supplier
- see how important each buyer is to a supplier
- benchmark public sector organisations' spend on a consistent basis
- see how much public sector organisations spend with different suppliers

Supply Chain Insights forms part of the Grant Thornton Public Sector Insight Studio portfolio of analytics platforms.

Click on Supply Chain Insights for more information.

Supply Chain Insights

Grant Thornton

Challenge question:

Has your Authority considered how our Supply Chain Insight tool can help support your supply chain assurance?



Cost Assurance

Did you know....

40

Number of Public Sector engagements to date

£125m

Annual spend analysed

£3.55m

Rebate opportunities identified

£1.1m

Fee income identified

2.84%

Error rate – rebates versus spend volume

55%

Of Public Sector engagements are Local Government

Our Cost Assurance service line provides Local Authorities with an independent and retrospective audit of their legacy telecommunications and utilities costs incurred during the past 6 years (as per the Statute of Limitation).

We find that there are repeat errors contained within a Suppliers' invoice arrangements – errors that aren't necessarily picked up by the end client. This is due to the fact that they tend to be contained in suppliers' billing systems 'at source' and are much further down the supply chain which the user won't necessarily have visibility of.

We are supported by a comprehensive library of legacy supplier pricing that has been collated since 2011. Our one aim is to ensure that the client has only paid for the services used during the period by:

- ensuring that bills presented by Suppliers' are in line with their contracts and relevant pricing mechanisms
- ensuring the client receives the Supplier refunds where errors have been identified by us
- ensuring consequential savings are identified and implemented immediately for the client

Our Cost Assurance work is based on a contingent-fee model and is supported by PSAA Ltd. Each of our Local Authority engagements include a fee cap to ensure governance and regulatory standards are maintained.

In summary, we are able to bring much needed financial benefit to the sector as well as providing insight into errors that may be prone to repeat offence by suppliers long after our work is concluded.

Grant Thornton Challenge question:

Has your Authority considered the potential for an independent review of telecommunications and utility costs?

Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<http://www.grantthornton.co.uk/en/insights/commercial-healthcheck-in-local-authorities/>

<http://www.cfoinsights.co.uk/>

<http://supplychaininsights.grantthornton.co.uk/>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

Prudential Regulation Authority (PRA) website links

<https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-local-government-investments-second-edition>

<https://www.gov.uk/government/publications/capital-finance-guidance-on-minimum-revenue-provision-third-edition>

CIPFA website link

<http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2017-edition-book>

National Audit Office link

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

<https://www.nao.org.uk/report/the-adult-social-care-workforce-in-england/>

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External Audit Plan

Year ending 31 March 2018

Kent County Council

April 2018

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Section

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4. Reasonably possible risks identified
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Appendix A: Revised ISAs

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, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of [ANOTHER Council]. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit and Governance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your 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.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

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Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud in revenue recognition (rebuttable)
- Management override of controls
- Valuation of pension fund net liability
- Valuation of property, plant and equipment

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £44,253k (PY £44,033k), which equates to 2% of your forecast gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2,213k (PY £2,201k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks:

- Medium term financial sustainability
- Ongoing planning and implementation of health and social care integration

Audit logistics

Our interim visit took place in December 2017 through to March 2018 and our final visit will take place in June/July 2018. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £155,925 (PY: £155,925) for the Council.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle. Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations. Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

Integration with health sector within local STPs

Kent County Council has a major role to play in developing the region wide Kent and Medway Sustainability and Transformation Plan. The STP was published in November 2016 and since then the council has collaborated with all NHS organisations across Kent and Medway and Medway Council to establish the Kent and Medway Sustainability and Transformation Partnership. This will lead to further investment in development of new social care pathways and provide improved and sustainable health and social care services for the population of Kent and Medway in the long-term.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Financial pressures

The Council has continued to be in an era of the greatest financial challenge ever faced by local government. In midst of these challenges, the council has made savings of £591m over the last 7 years to offset the pressures and continue to protect and invest in services.

Your medium term financial plans identify budget gaps in future years including a gap of £53.3 from 2017/18 to 2018/19. Your biggest challenge will be to balance your budget in the medium term and continue to seek variety of saving strategies to deal with financial pressures.

You have increased council tax by just under 2% in 2017/18 and 3% in 2018/19, with an additional 2% social care levy in both year to ease the pressure of rising cost of adult social services.

Business rates pilot

In September 2017, the government launched a prospectus inviting local authorities to submit proposals to pilot 100% business rates retention in 2018/19. Kent councils worked together to submit a bid proposing 70% of the monies being retained to support financial sustainability of the authorities involved and 30% being used to fund future growth initiatives. It was announced in December 2017 that Kent will be one of the 10 new pilots. The retained monies will be distributed to each authority on the basis of their population and growth.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, and the impact of impairment assessments.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable 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 the 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 • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions <p>As part of our interim audit we have already documented and walked through the control environment around manual journal entries and we have carried out substantive testing of months 1-9 journal entries. There are no significant issues to report.</p>

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Valuation of property, plant and equipment</p>	<p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; consider the competence, expertise and objectivity of any management experts used; discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions; review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; test revaluations made during the year to ensure they are input correctly into the Council's asset register; evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>As part of our interim audit we have already documented and walked through the control environment around your property, plant and equipment revaluations. There are no significant issues to report.</p>
<p>Valuation of pension fund net liability</p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> 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; evaluate 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; undertake procedures to confirm the reasonableness of the actuarial assumptions made; check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>As part of our interim audit we have already documented the controls around bringing the pension fund liability accurately into the accounts. There are no significant issues to report.</p>

Reasonably possible 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 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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage (34% based on 2016-17 accounts) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • perform a substantive analytical review of payroll to analyse movements year on year; • re-perform the year end payroll reconciliation and test whether year-end payroll accruals, e.g. tax and pension creditors, unpaid leave accrual) have been recognised and are not understated. <p>As part of our interim audit we have already documented and walked through the control environment around payroll expenditure and we started our re-performance of the payroll reconciliation and the substantive analytical review. There are no significant issues to report.</p>
<p>Operating expenses</p>	<p>Non-pay expenses on other goods and services also represents a significant percentage (64% based on 2016-17 accounts) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We will</p> <ul style="list-style-type: none"> • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • test whether year end operating expenditure accruals have been recognised and not understated; • test operating expenses on a sample basis as in prior years; • test the year end reconciliation of operating expenditure recorded in the general ledger to the subsidiary system <p>As part of our interim audit we have already documented and walked through the control environment around operating expenditure and we have carried out substantive testing of months 1-9 of your operating expenditure recorded in the general ledger. There are no significant issues to report.</p>

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Materiality

The concept of materiality

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. 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.

Materiality for planning purposes

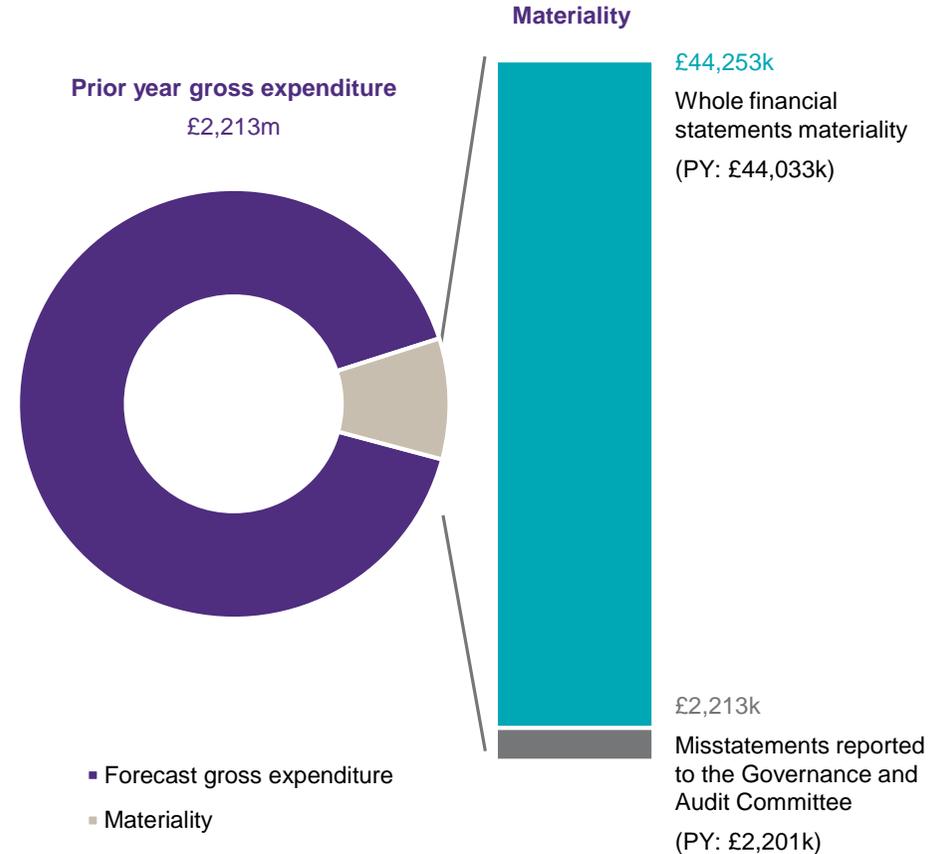
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £44,253k (PY £44,033k), which equates to 2% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We consider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2,213k (PY £2,201k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.



Value for Money arrangements

Background to our VFM approach

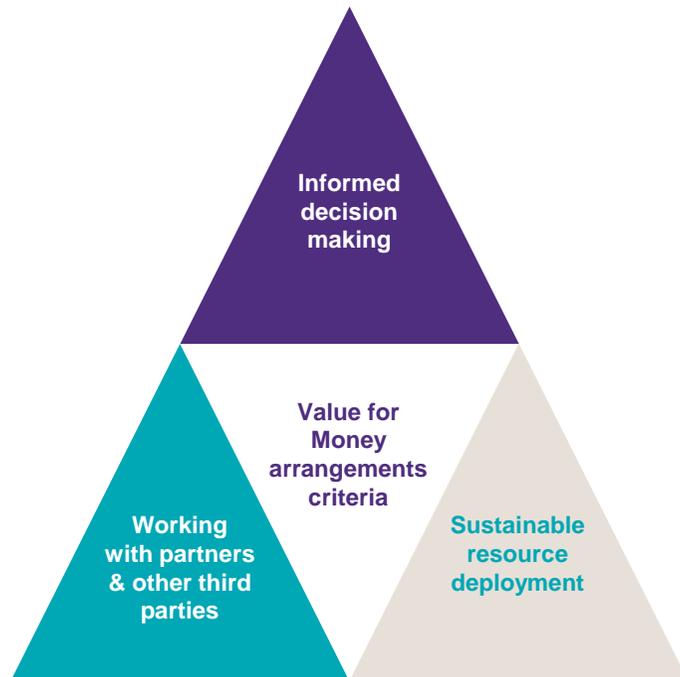
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

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 below:

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Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.



Medium Term Financial Sustainability

You have a strong track record of delivering to your budgeted spend at the year end. However as reported at Month 10 you were anticipating a outturn deficit pressure of £5.5m for the year.

You have set a balanced budget for 2018/19 with a net budget requirement of £946m. It should be noted that the budget is balanced by one-off use of underspends and reserves, and within your forward looking Medium Term Financial Plan there are significant challenges particularly in terms of increasing cost pressures and necessary identified savings gaps of £53.3m in 2018/19 and £34.4m in 2019/20.

We will review your Medium Term Financial Plan, including the robustness of assumptions. We will review savings plans and revenue generating schemes. We will discuss your plans and outcomes with management, as well as reviewing how finances are reported to Councillors.



Ongoing planning and implementation of health and social care integration

The Kent and Medway Sustainability and Transformation Plan (STP) was published in November 2016. Kent County Council has a major role in continuing to develop the STP across Kent. Your central role in this transformation project means it continues to present one of the most significant risks for Value for Money.

We will update our understanding of the project management and risk assurance frameworks put in place by the Council to establish how it is identifying, managing and monitoring these risks. We will also review your plans for transformation of social services and integration with other services in the Kent Health Economy, and how you will monitor expenditure and outcomes in the new shared/collaborated services.

Audit logistics, team & audit fees



Paul Dossett, Engagement Lead

Paul is responsible for the overall delivery of the Audit Plan, covering the totality of our work across the opinion and VFM audits. This includes liaison with senior officers and ensuring we meet and exceed your service expectations.



Andy Conlan, Audit Manager

Andy is responsible for planning, managing the audit, and providing feedback to you throughout the audit process. Andy will liaise with your finance team and ensure the Audit Plan is applied throughout the course of audit testing



Yawar Malik, Audit Incharge

Yawar is responsible for the delivery of the audit, acting as first port of call for the finance team in light of any technical financial matters.

Audit fees

The planned audit fees are no less than £155,925 (PY: £155,925) for the financial statements audit

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Non-audit services

The following non-audit services were identified

Service	Fees £	Threats	Safeguards
Non-audit related			
Teachers Pensions Return certification work	£4,378	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,378 in comparison to the total fee for the audit of £155,925 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
CFO Insights	£10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £155,925 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Audit related			
Resolution of objections to the 2015-16 statutory accounts	£29,064	Self-Interest Self-Review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,814 (fees relating to 2016-17 objection resolution yet to be confirmed) in comparison to the total fee for the audit of £155,925 and in particular relative to Grant Thornton UK LLP's turnover overall. The work we do on this and the level of the fee is also closely scrutinised and challenged by Public Sector Audit Appointments to ensure that they consider this to be reasonable and consistent at a national level.
Resolution of objections to the 2016-17 statutory accounts	TBC	Self-Interest Self-Review	The work to resolve objections is carried out subsequent to the issuance of our audit opinion and is not considered to have an impact on our opinion for 2017-18 as a separate accounting period.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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External Audit Plan

Year ending 31 March 2018

Kent Superannuation Fund

24 April 2018

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Your key Grant Thornton team members are:

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

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent Superannuation Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance (the Governance & Audit Committee).

The audit of the financial statements does not relieve management or the Governance & Audit Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

Significant risks

Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud in revenue recognition – This risk has been rebutted for the Fund as documented on page 5
- Management over-ride of controls
- The valuation of Level 3 investments is incorrect

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £50.087m (PY £45.975m), which equates to 0.9% of your Net Assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £2.504m (PY £2.298m).

Audit logistics

Our interim visit will take place in March and our final visit will take place in June. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be no less than £30,568 (PY: £30,568) for the Fund. Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Pooling

Arrangements for the pooling of investments continue to develop. The DCLG have reported on the progress of pools and noted the pace of development, including the launching of procurements for pool operators, appointing senior officers and preparing applications for Financial Conduct Authority authorisation. The Fund agreed to join the ACCESS (A Collaboration of Central, Eastern and Southern Shires) Pooling arrangement In July 2016. This is made up of the following authorities: Cambridgeshire, Kent, East Sussex, Norfolk, Essex, Northamptonshire, Hampshire, Suffolk, Hertfordshire, West Sussex and Isle of Wight.

This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains 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.

Markets in Financial Instrument Directive (MiFID II)

Following the introduction of MiFID II from 3 January 2018, the impact for Fund is that to be able to continue to access the same investments as previously, they need to apply to 'opt up' and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the fund, which may have an adverse impact on the achievement of the investment strategy. It was resolved that applications for elected professional client status be agreed with all relevant institutions in order to ensure the Fund can continue to implement an effective investment strategy.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018. The Superannuation Fund has been ahead of this deadline for several years and should remain the case this year as well.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

On-going Matters

- Indexation and equalisation of GMP in public service pensions schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS
- SAB work on options for academies within the LGPS and review of Tier 3 employer risks.

Key challenges

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017-18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

Key Performance Indicators

Fund performance (as at September 2017)	£5.767bn
Growth in previous quarter	£69m
Number of employers	422

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 the 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 County Council as the Administering Authority of the Kent Superannuation Fund, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the Kent Superannuation Fund.</p>
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments 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.	<p>We will</p> <ul style="list-style-type: none">• gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls• 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.• consideration of the competence, expertise and objectivity of any management experts used.• review the qualifications of the Fund Managers to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period

Reasonably possible 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 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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Contributions from employers and employees' represents a significant percentage (65%) of the Fund's revenue.	We will: <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; • rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained. • test a sample of contributions payments to obtain assurance on timeliness of payments.
Pension Benefits Payable	Pension benefits payable represents a significant percentage (86%) of the Fund's expenditure.	We will: <ul style="list-style-type: none"> • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of individual pensions in payment by reference to member files; • rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	<p>We will</p> <ul style="list-style-type: none">• gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls.• 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.• consider the competence, expertise and objectivity of any management experts used.• review the qualifications of the expert used to value the level 2 investments at year end and gain an understanding of how the valuation of these investment has been reached.• for a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.

Other matters

Other work

The Fund is administered by Kent County Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 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 carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited fund accounts.

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 this report.

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) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

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. 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.

Materiality for planning purposes

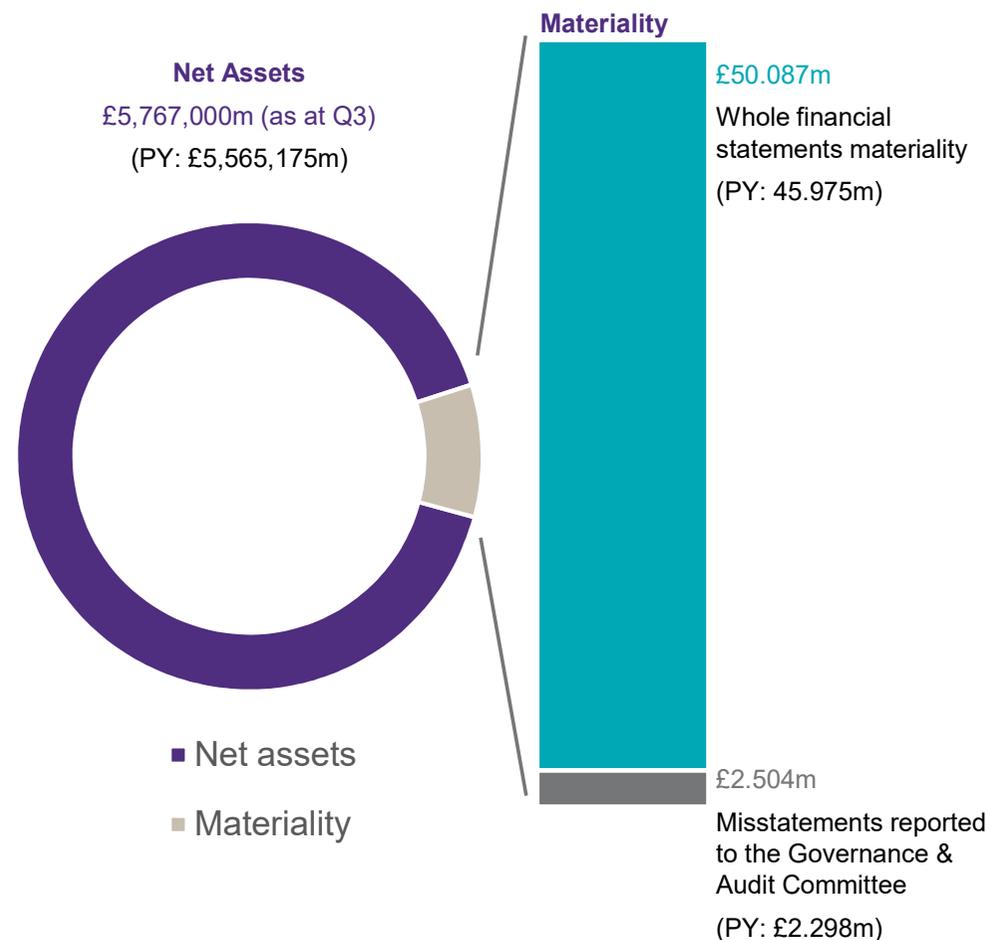
We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £50.087m (PY £45.975m), which equates to 0.9% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Governance & Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance & Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.504m (PY £2.298m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance & Audit Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & audit fees



Paul Dossett, Engagement Lead

Paul will be the main point of contact for the Chief Executive, the Section 151 Officer and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Governance and Audit Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work.



Matt Dean, Audit Senior Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend Governance and Audit Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will work with Internal Audit to secure efficiencies and avoid any duplication across the audit.



Onyi Aguma, Audit In-Charge

Onyi will lead the onsite team and will be the day to day contact for the audit. Onyi will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Onyi will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are no less than £30,568 (PY: £30,568) for the financial statements audit. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Non-audit services

No non-audit services were identified in respect of the Superannuation Fund. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings Report at the conclusion of the audit.

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: <ul style="list-style-type: none">• The directors use of the going concern basis of accounting is appropriate• The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: <ul style="list-style-type: none">• Responsibilities of management and auditors regarding other information• A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation• Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.



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

To: Governance and Audit Committee – 24 April 2018

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 2018

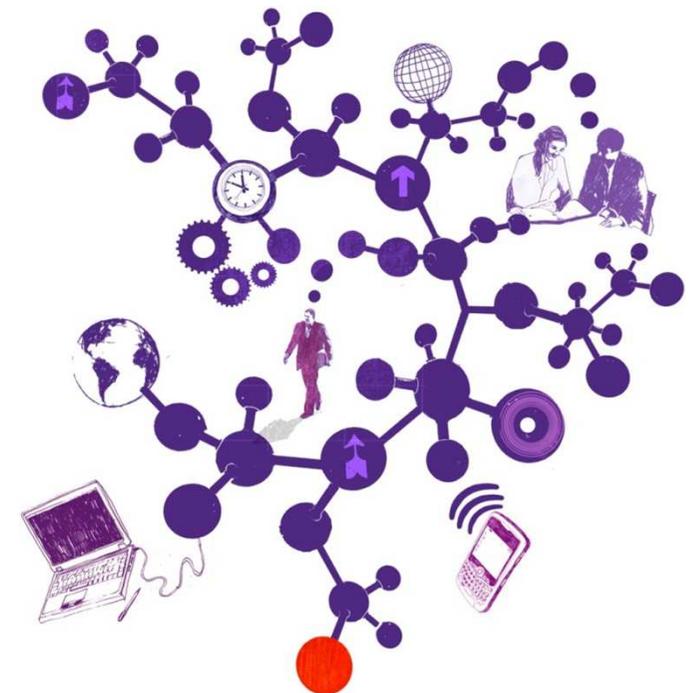
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In-Charge Accountant
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a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

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Purpose

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

Background

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

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

Communication

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

- fraud
- laws and regulations
- going concern.

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

Fraud

Issue

Matters in relation to fraud

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

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

As 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 17/18 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 grants administration and recommends improvements in controls if weaknesses are identified. In 17/18 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?</p> <p>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 or where they are not they are being addressed by management.</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 2018, 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>

Fraud risk assessment

Question	Management response
<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>The council has a suite of policies and processes in place to communicate and encourage ethical behaviour from its staff and contractors including (but not limited to) the:</p> <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.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<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 2017/18 the counter fraud team built on previous awareness campaigns by delivering tailored training to a number of departments, establishments and schools.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<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>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>	<p>No</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 and Corporate Law & Assurance Team 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>The Office of the General Counsel prepares a weekly update on key legal issues to ensure that officers are updated on changes to legislation and case law. The implementation of the new model has included the proactive management of legal risks with Corporate Directors on a number of key areas including around the preparation of the Capital programme.</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 General Committee, Policy and Resources Cabinet Committee and the Full County Council. The attendance of the General Counsel ensures an early discussion of key legal issues on strategic items. The Office of the General Counsel 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 2017, or earlier with an on-going impact on the 2017/18 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 on 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. However, the impact of the national reviews on 'Fair Funding' and 'Business Rate Retention' are significant events and we will be influencing where possible and will be actively managing any consequences.
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>Not of any significance.</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>Yes, and training is regularly offered to support managers.</p>



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

To: Governance and Audit Committee - 24 April 2018

Subject: Statutory Accounts for those companies in which KCC has an interest

Classification: Unrestricted

Summary: To present the latest available Statutory Accounts for those companies in which KCC has an interest.

FOR ASSURANCE

1 INTRODUCTION

- 1.1 As per its Terms of Reference, the Governance and Audit Committee has a responsibility each year to 'Receive and review the annual statutory financial accounts of any KCC limited companies and financial statements for other trading vehicles and to consider corrective action where appropriate'.
- 1.2 The hyper-link to the latest Statutory Accounts for these companies (for 2016-17) is included as an appendix to the report. The hyper-link is: [Statutory Accounts](#)
- 1.3 This report also includes an explanation of payments made by the Council to the company, the purpose of the company and the nature and degree of interest that the Council has in the company. There is no underlying risk to KCC in relation to these accounts.

2 ENTITIES WHICH KCC HAS AN INTEREST IN

- 2.1 The table below shows the details of the entities which KCC has an interest including payments made to the entities during 2016-17.

1. Association of Tourist Attractions in Kent Ltd	
Purpose of entity	To promote the interest of tourist attractions of all sizes and kinds throughout Kent. Company Limited by Guarantee
Level and Nature of	There is no Kent County Council representative on the

Interest	board and the company is limited by guarantee with each of the Directors being liable for £1. Kent County Council does not appear to have a direct interest in the company.
Directors on the Board	None
Profit or Surplus / (Deficit)	£(1,980) – accounts as at 31 August 2016
Payment during 2016-17	Nil
2. Aylesham & District Community Workshop Trust Ltd	
Purpose of entity	Established for the benefit of persons in the Aylesham and Rural District to provide or assist in the provision of facilities for the advancement of education and for recreation and leisure-time occupation with the objective of improving the conditions of life of said persons. Company Limited by Guarantee and a Charitable Trust.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. There are 9 Trustees. Liability will not exceed £10.
Directors on the Board	Mr S Manion – KCC Member
Profit or Surplus / (Deficit)	£110,980 – accounts as at 31 March 2017
Payment during 2016-17	£ 6,114.38 (excluding VAT) – Room hire for courses
3. Visit Kent Ltd	
Purpose of entity	To promote, market, advertise and develop nationally and internationally the tourist industry in the county of Kent and all the bodies, entities, persons associated and involved therein. Company Limited by Guarantee.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. Liability is limited to £1.
Directors on the Board	Mr M Dance – KCC Member Mr D Hughes – KCC Officer

Profit or Surplus / (Deficit)	£27,790 – accounts as at 31 March 2017
Payment during 2016-17	£579,111.91 (excluding VAT) – Payment for Visitor Economy Services and contribution to project costs (Interreg and Discover)
4. Locate in Kent Ltd	
Purpose of entity	Locate in Kent offers confidential and free business investment and relocation services to international, UK and Kent-based companies looking to expand. . Company Limited by Guarantee.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. Liability is limited to £1.
Directors on the Board	Mr M Dance – KCC Member
Profit or Surplus / (Deficit)	£46,922 – accounts as at 31 March 2017
Payment during 2016-17	£886,874.65 (excluding VAT) – Payment of a monthly contract
5. Trading Standards South East Kent Ltd	
Purpose of entity	To provide advice to consumers in the south east of England. Company Limited by Guarantee.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. Liability is limited to £1.
Directors on the Board	Mrs S Harvey – KCC Officer
Profit or Surplus / (Deficit)	£509,772 – accounts as at 31 March 2017
Payment during 2016-17	£13,607.50 (excluding VAT) – Membership fees and IHS subscription
6. East Kent Spatial Development Company	
Purpose of entity	A regeneration company specialising in the provision of utilities infrastructure to the business parks in East Kent. Company Limited by Guarantee.
Level and Nature of	KCC is a Class A Member. Each Class A Member has

Interest	<p>one vote.</p> <p>Liability is limited to £1.</p> <p>Locate in Kent is also a Member which KCC has an interest in.</p>
Directors on the Board	Mr M Dance – KCC Member
Profit or Surplus / (Deficit)	£1,248,433 – accounts as at 31 March 2017
Payment during 2016-17	Nil
7. Produced in Kent	
Purpose of entity	<p>To increase the public's awareness of produce which has been produced in Kent.</p> <p>Company Limited by Guarantee.</p>
Level and Nature of Interest	<p>KCC has joint voting rights with Hadlow College.</p> <p>Liability is limited to £1.</p>
Directors on the Board	Mr S Holden – KCC Member
Profit or Surplus / (Deficit)	£5,518 – accounts as at 31 March 2017
Payment during 2016-17	£62,254.04 (excluding VAT) – contribution towards salary costs, campaign costs and sponsorship of an award
8. TRICS Consortium Ltd	
Purpose of entity	<p>Consortium of six County Councils owning and operating a transport trip rate database known as TRICS.</p> <p>Company Limited by Shares</p>
Level and Nature of Interest	<p>37,500 shares of total share capital of 225,000 (16.7% holding).</p> <p>One of six member with equal voting rights (one vote per member)</p> <p>During 2016-17 we received a dividend £83,821.50</p>
Directors on the Board	None
Profit or Surplus / (Deficit)	£(6,605) – accounts as at 31 December 2016

Payment during 2016-17	£3,150.00 (excluding VAT) – Licence
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2.2 Goetec Ltd was dissolved on 30 January 2018. There is no risk to KCC. KCC made a payment of £17,976.59 during 2016-17 which was in respect of membership fees and equipment rental.

3. **INVESTMENT COMPANIES**

3.1 Detailed in the table below are investments KCC has made through the purchase of shares. Items **9 to 25** in the table below were purchased from the allocation of Regional Growth Fund programmes i.e. Expansion East Kent, Tiger and Escalate and there is no financial risk to KCC.

9. Shearwater Systems Ltd	
Purpose of entity	To design and develop innovative software to support a burgeoning need for mobile software applications in healthcare. The company focus is on creating Mobile Health Record (MHR) software applications that allow clinicians to work seamlessly between acute hospital and community care settings including the patients' home.
Level and Nature of Interest	233,333 £0.01 Ordinary A Shares were purchased in 2013-14 from the Expansion East Kent programme. The shares were purchased for £144,433.12. KCC has a 7.22% holding in the company.
Directors on the Board	None Shareholders rights – to receive full financial information and an updated business plan every year. The company reported a valuation of £5m (August 2017) which values KCC's share at £295,000.
Profit or Surplus / (Deficit)	£(160,715) – accounts as at 31 March 2017
Payment during 2016-17	Nil
10. TRN – The Research Network Ltd	
Purpose of entity	A small pharmaceutical research company based in Sandwich. It is proposed to invest in additional business development in China, India, USA and Europe. It is proposing to invest in innovative web-based scientific software to support the TRN

	collaborative drug research model.
Level and Nature of Interest	1,400 £0.01 Ordinary Shares were purchased in 2013-14 as from Expansion East Kent programme. The shares were purchased for £28,000. KCC has a 6% holding in the company.
Directors on the Board	None Shareholders rights – place a director or observer on the Board. The Company reports a growth year on year and profit is increasing. The Company is now paying a dividend to shareholders and is considering a proposal to buy back KCC’s shares in 2018-19.
Profit or Surplus / (Deficit)	£20,139 – accounts as at 30 April 2017
Payment during 2016-17	Nil
11. Michelson Diagnostics Ltd	
Purpose of entity	Development, manufacture and supply of patented Optical Coherence Tomography (OCT) instrumentation (the Vivosight Scanner) to the dermatology markets and the supply of associated support systems.
Level and Nature of Interest	In 2014-15 26,986 £1 B Ordinary Shares were purchased in 2014-15 from the Escalate programme. The shares were purchased for £249,998.30. In 2015-16 53,664 additional £1 C shares were purchased in 2015-16 the Escalate programme. The shares were purchased for £53,664.
Directors on the Board	None Shareholders Rights – Shareholders Information provided on an annual basis. Main market for the product is in Germany and the Company are looking to other areas of Europe to increase sales and revenue has increased in Q4 of 2017-18.
Profit or Surplus / (Deficit)	£(707,868) – accounts as at 30 September 2017
Payment during 2016-17	Nil
12. Digital Contact Ltd	
Purpose of entity	A big data products company, helping businesses and

	consumers make faster and better decisions from the data that surrounds them.
Level and Nature of Interest	1,389 £1 Ordinary Shares were purchased in February 2015 through the Tiger programme for £1,174,072. KCC has a 10% holding in the company.
Directors on the Board	None Shareholders Rights – Standard information rights as per all other shareholders and the right to appoint an observer onto the Board. Further venture capital investment is being sourced.
Profit or Surplus / (Deficit)	£(543,550) – accounts as at 30 April 2017
Payment during 2016-17	Nil
13. Venomtech Ltd	
Purpose of entity	To produce unique venom derived tools for drug discovery.
Level and Nature of Interest	419 £0.01 Ordinary Shares were purchased in March 2015 from the Expansion East Kent programme for £29,996.21. KCC has a 2.6% holding in the company.
Directors on the Board	None Shareholders Rights – Shareholders Information on annual basis. Right to appoint a director or observer on Board. The company have launched its first cosmetic ingredient with Mibelle and will be focussing on the cosmetic market to ensure achievement of revenue.
Profit or Surplus / (Deficit)	£(143,618) – accounts as at 31 August 2016
Payment during 2016-17	£74,000 – loan from Expansion East Kent.
14. Mead VT Group Holdings Ltd	
Purpose of entity	Dormant company
Level and Nature of Interest	24 £1 Ordinary Shares were purchased in March 2015 from the Tiger programme for £250,000.

Directors on the Board	None Shareholders Rights – Shareholder information rights and the right to appoint a director or observer to the Board. This company holds the security (Intellectual Property) for a KCC loan provided to Vortex Exhaust Ltd.
Profit or Surplus / (Deficit)	£0 - accounts as at 31 March 2017
Payment during 2016-17	Nil
15. Futurenova Ltd	
Purpose of entity	Operates in the pharmaceuticals and medical industry, with a special focus on technological innovation. The Company is highly focused on addressing identified and important market needs by developing products and technologies which fill identified, but presently unsatisfied, demands in the NHS.
Level and Nature of Interest	200,000 £0.001 Ordinary Shares were purchased in June 2015 from the Expansion East Kent programme for £200,000. KCC has a 14.8% holding in the company.
Directors on the Board	None Shareholders Rights – Shareholder information rights and the right to appoint a director or observer to the Board.
Profit or Surplus / (Deficit)	£(156,396) – as at 30 April 2017
Payment during 2016-17	Nil
16. Ancon Technologies Ltd	
Purpose of entity	A pioneering company offering revolutionary new molecular detection technology that provides unprecedented levels of sensitivity and presents a unique solution to many industries
Level and Nature of Interest	100,000 £0.0001 Ordinary Shares were purchased in October 2015 from the Expansion East Kent programme for £225,000.

	KCC has a 4% holding in the company.
Directors on the Board	None Shareholders Rights – Shareholder information rights and the right to appoint a director or observer to the Board.
Profit or Surplus / (Deficit)	£(234,576) – accounts as at 31 July 2017
Payment during 2016-17	Nil
17. Creabilis Holdings Ltd	
Purpose of entity	Engaged in pharmaceutical development activities in relation to inflammatory skin conditions.
Level and Nature of Interest	393408 £0.0001 Ordinary Shares were purchased in from the Expansion East Kent programme for £520,000. On 5 July 2017 the shares were transferred to Sienna Biopharmaceuticals Inc. KCC now holds: Issue name of stock: Sienna Biopharmaceuticals Inc. Total share balance on 20 March 2018: 24,025.000 Closing price per share on 20 March 2018: \$19.8500 Estimated value: \$476,896.25
Directors on the Board	None Shareholder Rights in respect of Sienna Biopharmaceuticals Inc. – Shareholder Information available on shareholder portal.
Profit or Surplus / (Deficit)	£(3,980,540) – accounts as at 31 December 2016
Payment during 2016-17	Nil
18. Quvium Ltd	
Purpose of entity	A technology and data company specialising in smart management of respiratory disease by listening to, interpreting and analysing cough.
Level and Nature of	1628 £0.0001 Ordinary Shares were purchased in

Interest	November 2017 from the Expansion East Kent programme for £250,000. KCC has a 11.29% holding in the company.
Directors on the Board	None Shareholders Rights – Shareholder information rights and the right to appoint a director or observer to the Board.
Profit or Surplus / (Deficit)	£(854,618) – accounts as at 31 December 2016
Payment during 2016-17	Nil

Detailed in the table below (items 19 to 25) are investments KCC has made through the purchase of shares from the KCC Regional Growth Discovery Park Technology Investment Fund. There is no financial risk to KCC.

19. Flute Office Ltd	
Purpose of entity	Manufacturing 100% recyclable and sustainable furniture for the workplace.
Level and Nature of Interest	1,817 £0.1 Ordinary Shares were purchased in February 2016 from the Expansion East Kent programme for £500,000. In 2016-17 further shares were purchased from the Expansion East Kent programme for £100,020. The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Technology Investment Fund.
Directors on the Board	None
Profit or Surplus / (Deficit)	£(862,834) – accounts as at 31 December 2016
Payment during 2016-17	Nil
20. TC Biopharm Ltd	
Purpose of entity	A clinical development company with a cell-based product pipeline capable of treating a variety of disorders including cancer and severe viral infections.

Level and Nature of Interest	70,126 £1 Ordinary Shares were purchased in February 2016 from the Expansion East Kent programme for £500,000. KCC has a 5.5% holding in the company. The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Investment Fund.
Directors on the Board	None
Profit or Surplus / (Deficit)	£(2,140,567) – accounts as at 31 July 2016
Payment during 2016-17	Nil
21. Viramal Ltd	
Purpose of entity	A speciality pharmaceutical company focused on the development of therapeutics that improves the quality of women's health.
Level and Nature of Interest	52,631 £0.01 equity shares were purchased in February 2016 from the Expansion East Kent programme for £500,000. KCC has a 2% holding in the company. The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Investment Fund.
Directors on the Board	None
Profit or Surplus / (Deficit)	£(1,589,500) – accounts as at 30 April 2017
Payment during 2016-17	Nil
22. Centauri Therapeutics Ltd	
Purpose of entity	A biotechnology company focused on the discovery and development of novel molecules targeting life threatening diseases.
Level and Nature of Interest	2,074 £0.002411 Ordinary Shares were purchased in January 2016 from the Expansion East Kent programme for £500,000. In 2016-17 further shares were purchased from the

	<p>Expansion East Kent programme for £50,000.</p> <p>The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Investment Fund.</p>
Directors on the Board	None
Profit or Surplus / (Deficit)	£(587,909) – accounts as at 31 March 2017
Payment during 2016-17	Nil
23. Coomtech Ltd	
Purpose of entity	A sustainable energy technology company that have developed a novel process for drying Biomass and Low Rank Coal.
Level and Nature of Interest	<p>15,900 £1 Ordinary Shares were purchased in April 2015 from the Expansion East Kent programme for £375,000.</p> <p>In 2016-17 further shares were purchased from the Expansion East Kent programme for £337,500.</p> <p>The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Investment Fund.</p>
Directors on the Board	None
Profit or Surplus / (Deficit)	£(581,649) – accounts as at 28 February 2017
Payment during 2016-17	Nil
24. Alert Technology Ltd	
Purpose of entity	Alert Technology Ltd has developed a Real Time Airborne Asbestos Warning Device. The devices will alert users in real time when materials containing asbestos have been disturbed and carcinogenic asbestos fibres have been released into the air.
Level and Nature of Interest	<p>Equity Shares were purchased June 2016 from the Expansion East Kent programme for £500,000.</p> <p>The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Investment Fund.</p>

Directors on the Board	None
Profit or Surplus / (Deficit)	£(611) – accounts as at 31 August 2016
Payment during 2016-17	Nil
25. Peptinnovate Ltd	
Purpose of entity	A drug and development company focusing on the treatment of immuno-inflammatory diseases.
Level and Nature of Interest	Equity Shares were purchased March 2017 from the Expansion East Kent programme for £500,000. The return on equity will be recycled back for reinvestment in other businesses in Kent and Medway as part of the Discovery Park Investment Fund.
Directors on the Board	None
Profit or Surplus / (Deficit)	£(2,404,110) – accounts as at 31 March 2017
Payment during 2016-17	Nil
26. Kent PFI Holding Company 1 Ltd	
Purpose of entity	Kent PFI Holding Company 1 Ltd is a holding company for Kent PFI Company 1 Limited, a company whose activities include the provision of construction and maintenance services for three secondary schools for pupils across Kent. (Thamesview School, Northfleet Technical College and St Johns Catholic Comprehensive School).
Level and Nature of Interest	As part of the Treasury Strategy to make investments in equity up to the value of £5m, KCC purchased shares in Kent PFI Holding Company 1 Ltd. At the end of 2014-15 KCC has 42% holding in the company. The investment structure is as follows: <ul style="list-style-type: none"> • £2,681,260.21 in loan notes • £2,113,808.91 in shares During 2016-17 we received £499,132.69 relating to interest and repayment of loan notes.
Directors on the Board	Mrs C Head – KCC Officer Ms J Hansen – KCC Officer

Profit or Surplus / (Deficit)	£300,000 – accounts as at 31 March 2017
Payment during 2015-16	£10,057,496.57 (excluding VAT) – PFI costs

- 3.2 Companies detailed in items 19 to 25 have transferred into the Discovery Park Investment Fund and the investment fund total stands are £3,862,519.
- 3.3 Both portfolios are still in the early stages of development and it is anticipated that some of the investments will not show a positive return on investment before 3 to 5 years.
- 3.4 There are some early signs of increased value of shareholdings in some of the investments and there have been no failures to date.
- 3.5 There is no underlying risk to the Council in relation to these accounts as they will have been independently examined or audited as appropriate.

4 RECOMMENDATION

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

Emma Feakins
Chief Accountant
Ext: 416082

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

To: Governance and Audit Committee – 24 April 2018

Subject: Performance of KCC wholly owned companies

Classification: Unrestricted

Summary: To present the performance of KCC wholly owned companies for 2016-17.

FOR ASSURANCE

1 INTRODUCTION

- 1.1 As per its Terms of Reference, the Governance and Audit Committee has a responsibility each year to 'Receive and review the annual statutory financial accounts of any KCC limited companies and financial statements for other trading vehicles and to consider corrective action where appropriate'.
- 1.2 The hyper-link to the latest for these companies (for 2016-17) is included as an appendix to the report. The hyper-link is:- [Statutory Accounts for KCC wholly owned companies](#) It is only possible to report on the 2016-17 financial performance as the 2017-18 position has not been finalised yet.

2 PEFROMANCE OF KCC WHOLLY OWNED COMPANIES

Consolidated Commercial Services position

- 2.1 Table 1 below shows the key financial highlights for 2016-17 of KCC traded activities managed by Commercial Services (Kent) Limited, as shown in Note 34 of KCC's Statement of Accounts.

Table 1:

	Turnover	Expenditure	Surplus/ (deficit)
	£'000	£'000	£'000
KCS - education and office supplies	52,146	48,962	3,184
Brokerage services	243,882	242,711	1,171
Direct Services	1,258	1,119	139
Results for the year ended 31 March 2017	297,286	292,792	4,494

Gain on disposal of Fixed Assets			53
Contribution from reserves			1,626
Dividend – passed through from Kent Top Temps			1,300
Total Contribution to KCC y/e 31/3/17			7,473

2.2 For comparator purposes the 2015-16 results are shown in Table 2 below:

Table 2:

	Turnover £'000	Expenditure £'000	Surplus/ (deficit) £'000
KCS - education and office supplies	56,079	52,891	3,188
Brokerage services	259,760	258,602	1,158
Direct Services	885	871	14
Results for the year ended 31 March 2016	316,724	312,364	4,360
Loss on disposal of Fixed Assets			(29)
Contribution from reserves			2,369
Total Contribution to KCC y/e 31/3/16			6,700

2.3 It should be noted that the KCC – Commercial Services accounts are accounted for on the same basis as local authority accounts rather than on a commercial accounts basis. However, the total net worth provides a reasonable representation for the consolidated group.

2.4 Commercial Services declared a contribution and dividend totalling £7,473k for 2016-17 which was recognised in the Council's accounts as a debtor.

2.5 Table 3 below shows the 2016-17 Commercial Services Legal entity results and for comparator purposes the 2015-16 results are shown in Table 4.

Table 3:

2016-2017 Commercial Services Legal entity results

	Turnover £'000	Expenditure including interest and tax £'000	Surplus/ (Loss) after tax £'000
Commercial Services Kent Limited	51,235	50,375	860

Commercial Services Trading Limited	20,745	20,735	10
Kent Top Temps Limited		(1)	1

Table 4:

2015-16 Commercial Services Legal entity results

	Turnover	Expenditure including interest and tax	Surplus/ (Loss) after tax
	£'000	£'000	£'000
Commercial Services Kent Limited	53,720	53,528	192
Commercial Services Trading Limited	18,034	17,878	156
Kent Top Temps Limited		(151)	151

- 2.6 Kent Top Temps is a dormant company and there are no plans to trade through Kent Top Temps in the foreseeable future. The activities previously traded through Kent Top Temps have transferred to Commercial Services Trading Ltd and Commercial Services Kent Ltd.
- 2.7 Kent Top Temps declared a dividend payable of £1,300k which was passed through to the KCC traded activities managed by Commercial Services (Kent) Ltd. (see Table 1)

GEN² Property Limited and Invicta Law Limited

- 2.8 Table 5 below shows GEN² Property Limited and Invicta Law Limited results for 2016-17.

Table 5:

	Turnover	Expenditure including interest and tax	Surplus/ (Loss) after tax
	£'000	£'000	£'000
GEN ² Property Limited	7,788	6,695	1,093
Invicta Law Limited	0	519	(519)

- 2.9 GEN² Property Limited became operational in May 2016 and the financial information shown in the table represents 11 months' worth of trading. GEN² declared a dividend of £542k which was reflected as a debtor in the Council's accounts.

- 2.10 Invicta Law Limited became operational in June 2017 and the financial information shown in the table above represents the position as at 31 March 2017 which is prior to trading commencing.
- 2.11 All of the Statutory Accounts have been externally audited and the audit opinion in these accounts state that 'they give a true and fair view of the state of the company's affairs'. These companies are also subject to internal audit by KCC's auditors and they report to a separate audit committee in each case.

3 RECOMMENDATION

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

Emma Feakins
Chief Accountant
Ext: 416082

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

To: Governance and Audit Committee – 24 April 2018

Subject: East Kent Opportunities LLP

Classification: Unrestricted

Summary: To provide an annual report on East Kent Opportunities LLP as requested by the Governance and Audit Committee including an update on recent activity.

FOR ASSURANCE

INTRODUCTION

1. This report is the annual review of East Kent Opportunities LLP.
2. This report provides an update on East Kent Opportunities LLP. The hyper-link to the Annual Report and Financial Statements is included as an appendix to the report. The hyper-link is :- [East Kent Opportunities LLP](#)

UPDATE ON EAST KENT OPPORTUNITIES

3. Background

Kent County Council (KCC) and Thanet District Council (TDC) wished to bring forward the economic development and regeneration of the sites known as Eurokent and Manston Business Park. A Member Agreement was signed on the 22 August 2008 and a joint arrangement vehicle was set up, the East Kent Opportunities LLP (EKOLLP), which was incorporated on the 4 March 2008. KCC and TDC have 50:50 ownership, control and economic participation in the joint arrangement. KCC and TDC contributed 38 acres of land each to EKOLLP. The land was valued for stamp duty land tax (SDLT) at £5.5m (KCC contribution) and £4.5m (TDC contribution). The powers used are the 'well-being powers' provided to local authorities in Part I of the Local Government Act 2000.

4. Current Position

The current position and outlook for EKOLLP and, therefore, KCC's interest therein continues to show an increasingly positive view having achieved a number of milestones since 2013:

- i. During 2016-17, EKOLLP was approached by Homes England (then the Homes and Communities Agency) who were interested in purchasing a large parcel of the land at Eurokent for residential development. This resulted in a 22 acre land sale to them that was completed on 31 March 2017. There are currently parties

interested in purchasing the remaining two areas of Eurokent and negotiations are ongoing.

- ii. The old Laleham School site in Cliftonville had detailed planning permission for redevelopment for some 70 family dwellings. The site was marketed and a sale completed with a developer purchaser in 2016-17.
 - iii. The loan for the Eurokent Link Road has been repaid in 2017-18. This was possible due to the sale of the old Laleham Gap School site and the funds from the sale of land at Eurokent to Homes England.
 - iv. Manston Business Park has continued to see increasing development activity and occupancy. Further plots (Plots 3a, 3b, 3c) were sold in 2016-17 to Manyweather Properties and have been developed for SME workspace for both freehold sale and rental, providing an extensive range of opportunities. With flexible and adaptable units for SME companies the plots developed have a high percentage of occupiers and pre-sales. Further land sales to the same developer are allowing more phases (Plot 7a) of similar accommodation. Due to the growing demand further provision of roadways and services, particularly Foul Sewage provisions with Southern Water, remains under consideration.
 - v. Next steps for the company will include:
 - i. Continued marketing for the final two plots of land at the Eurokent site as EKOLLP explores its wider market potential; and
 - ii. Continued marketing and final negotiations for land sales at Manston Business Park.
5. East Kent Opportunities LLP's Annual Report and Financial Statements for 2016-17 are attached at Appendix 1, and the key points can be summarised as follows:
- i. In 2016-17, in the EKO LLP accounts, the net assets of the joint arrangement are £8.2m. 2015-16 was restated in the 2016-17 accounts. This was due to an error in the revaluation of the fixed assets. The restated net assets of the joint venture were £10.8m. The operating loss before members' remuneration and profit shares available for discretionary division among members of £0.27m.
 - ii. The accounts have been approved by the EKOLLP Management Committee and lodged with Companies House and they give a true and fair view of the state of the LLP's affairs.

6. RECOMMENDATION

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

Nigel Smith, GET, Economic Development
Bev Gibbs, ST, Finance
6 April 2018

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