

**GOVERNANCE AND AUDIT COMMITTEE**

**Wednesday, 24th April, 2019**

**10.30 am**

**Darent Room - Sessions House**

**There will be a training session for  
Members of the Committee given by Sam  
Buckland at 10.00 am on Internal Audit  
Planning and Sources of Assurance**









## **AGENDA**

### **GOVERNANCE AND AUDIT COMMITTEE**

**Wednesday, 24th April, 2019, at 10.30 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 D L Brazier      (Chairman),      Mr R A Marsh      (Vice-Chairman),  
Mrs R Binks,      Mr N J D Chard,      Mr G Cooke,      Mrs S V Hohler,  
Mr M J Horwood and Mr H Rayner

Liberal Democrat (1):      Mr R H Bird

Labour (1)      Mr D Farrell

Independents (1):      Mr M E Whybrow

#### **Webcasting Notice**

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By entering the meeting room you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes. If you do not wish to have your image captured then you should make the Clerk of the meeting aware.

#### **UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting
2. Substitutes
3. Declarations of Interest in items on the agenda for this meeting
4. Minutes - 23 January 2019 (Pages 7 - 14)

5. Committee Work and Member Development Programme (Pages 15 - 20)
6. Appointment of an Independent Member to the Governance and Audit Committee (Pages 21 - 26)
7. Internal Audit and Counter Fraud Progress Report (Pages 27 - 72)
8. Internal Audit and Counter Fraud Plan 2019/20 (Pages 73 - 122)
9. Update on response to the Internal Audit report: SEND including Education, Health and Care Plans and High Needs Funding (Pages 123 - 138)
10. Data Quality Policy (Pages 139 - 152)
11. Treasury Management Update (Pages 153 - 164)
12. Revised Accounting Policies (Pages 165 - 174)
13. External Audit Update and Audit Plans for Kent County Council and Kent Superannuation Fund 2018/19 (Pages 175 - 214)
14. Fraud Law and Regulations and Going Concerns Considerations (Pages 215 - 232)
15. Performance of KCC wholly owned Companies 2017/18 (Pages 233 - 236)
16. Statutory Accounts for those companies in which KCC has an interest (Pages 237 - 242)
17. East Kent Opportunities LLP (Pages 243 - 246)
18. Regional Growth Discovery Park Technology Investment Fund (Pages 247 - 250)
19. Other items which the Chairman decides are urgent
20. Motion to exclude the public

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

### **EXEMPT ITEMS**

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

21. Regional Growth Discovery Park Technology Investment Fund (Pages 251 - 266)

Benjamin Watts  
General Counsel  
03000 416814

**Friday, 12 April 2019**

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

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## 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.
- (k) Ensure that there are effective governance arrangements in place for Kent County Council's wholly owned limited companies and trading vehicles
- (l) Receive and review the annual financial statements and dividend policies of any KCC limited companies and to consider recommending corrective action where appropriate
- (m) Review the establishment of new limited companies before the company commences trading and make recommendations to the responsible Cabinet Member where appropriate in relation to:
  - i. Governance matters
  - ii. The financial impact of the proposed company on Kent County Council



## KENT COUNTY COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber - Sessions House on Wednesday, 23 January 2019.

PRESENT: Mr D L Brazier (Chairman), Mr R A Marsh (Vice-Chairman), Mrs R Binks, Mr R H Bird, Mr N J D Chard, Mr D Farrell, Mrs S V Hohler, Mr M J Horwood, Mr P W A Lake (Substitute for Mr G Cooke), Mr H Rayner and Mr M E Whybrow

ALSO PRESENT: Miss S J Carey, Mr R W Gough, Mr R L H Long, TD and Mr P J Oakford

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr R Patterson (Head of Internal Audit), Mrs A Mings (Treasury and Investments Manager), Ms S Buckland (Audit Manager), Mr B Watts (General Counsel), Mr M Scrivener (Corporate Risk Manager), Mrs R Spore (Director of Infrastructure) and Mr A Tait (Democratic Services Officer)

### UNRESTRICTED ITEMS

**1. Minutes - 24 October 2018**  
*(Item 4)*

RESOLVED that the Minutes of the meeting held on 24 October 2018 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 a update on the forward Committee Work and Member Development Programme following best practice guidance in relation to Audit Committees.

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

**3. Future Proofing the structure and workings of the Governance and Audit Committee**  
*(Item 6)*

(1) The Committee considered a report by the Head of Internal Audit which summarised potential changes to the structure and workings of the Committee.

(2) The Committee agreed that the question of the independent member of the Committee should be considered by a selection group consisting of one representative from each of the four political groups and that a further report on the recruitment process and the benefit of confidential meetings with the auditors would be considered at the next meeting of the Committee.

(3) RESOLVED that:-

- (a) agreement be given to the following changes to the responsibilities of the Committee within its Terms of Reference:-
  - (i) the introduction of a specific recommendation to approve the Annual Governance Statement;
  - (ii) the introduction of an annual report from the Committee to the County Council;
  - (iii) the introduction of management representation at the Committee to respond to “limited” or “no” assurance reports and areas of material concern or poor performance; and
- (b) further work be undertaken reported to the next meeting of the Committee as set out in (2) above to establish the benefit of:-
  - (i) The appointment of an independent member to the Committee; and
  - (ii) The introduction of an annual, informal, confidential meeting with the Head of Internal Audit and the External Auditors.

**4. Treasury Management 6 Month Review 2018/19**  
*(Item 7)*

(1) The Treasury and Investments Manager introduced a report reviewing Treasury Management activity for the period up to 30 September 2018 together with developments up to the date of the report.

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

**5. Corporate Risk Register**  
*(Item 8)*

(1) The Corporate Risk Manager presented the Corporate Risk Register to the Committee together with an overview of the changes since it had last been presented and an outline of the ongoing process of monitoring and review.

(2) In the light of comments made by Members of the Committee, the Corporate Risk Manager agreed that further consideration would be given to the intended removal of Risk CRR0008 (bulk placements).

(3) The Corporate Risk Manager noted a comment by Mr Farrell and agreed to consider whether the end of the Leader's term as Chairman of the County Councils Network would have an impact on any of the Risks.

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

## **6. Review of KCC's Risk Management Policy and Strategy**

*(Item 9)*

(1) The Corporate Risk Manager presented the annual review of the County Council's Risk Management Policy and Strategy.

(2) RESOLVED that approval be given to the County Council's Risk Management Policy and Strategy 2019-22.

## **7. Update on Savings Programme**

*(Item 10)*

(1) The Corporate Director of Finance introduced a report on progress towards the 2018/19 and 2019/20 budget savings.

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

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

*(Item 11)*

(1) The Head of Internal Audit summarised the outcomes to date against the 2018/19 Internal Audit and Counter Fraud Plan.

(2) The Committee asked for an item on Special Educational Needs and Disability at the next meeting to be attended by representatives from the relevant Directorate taking account of the identified pressures on the service.

(3) The Committee asked for a further analysis of audit actions deemed 'in progress' by management at the July meeting of the Committee.

(4) The Committee asked for an update report to its next meeting on arrangements for the Head of Internal Audit position.

(5) RESOLVED to note subject to (2) to (4) above:-

- (a) progress and outcomes against the 2018/19 Internal Audit and Counter Fraud Plan;
- (b) progress by management in implementing previously agreed actions from audits; and
- (c) amendments to the 2018/19 audit plan and future plans for 2019/20.

**9. External Audit Update**

*(Item 12)*

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

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

**10. Effectiveness of Internal and External Audit Liaison**

*(Item 13)*

(1) The Head of Internal Audit introduced a report summarising the effectiveness of the liaison arrangements between Internal and External Audit. He drew attention to the section of his report which explained that regular and ad hoc liaison meetings between Internal and External Audit were no longer taking place. He said that this was a national situation, that Grant Thornton UK LLP accepted his analysis and that he would be liaising with their officers with the aim of overcoming this problem.

(2) RESOLVED that subject to (1) above the report be noted for assurance.

## **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 5 and 6 of Part 1 of Schedule 12A of the Act.)*

### **11. The Education People** *(Item 16)*

(1) The General Counsel introduced an update on the governance arrangements for *The Education People*. He explained that it was the Committee's role was not to audit *The Education People* but to establish whether the County Council was able to ensure that its own interests were being progressed and that appropriate governance was in place.

(2) The General Counsel agreed to ask the Corporate Director EODD to write to the Committee Members about the process for the appointment of the Chair and Deputy Chair of the Company.

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

### **12. Property Income Management Update Report** *(Item 17)*

(1) The Director of Infrastructure updated the Committee on the progress of the Income Audit Management Action Plan being implemented. She gave details of the activities completed together with an outline of the timeline for the remaining phases which she agreed to circulate in detail to the Committee Members.

(2) RESOLVED that:-

(a) The progress made since the Property Income Management Audit Report be noted together with the further improvement work underway to ensure that the Council's property Income management process is and remains robust; and

(b) a further follow up on progress will be incorporated into the 2019/20 audit plan.

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By: David Brazier, Chairman of Governance and Audit Committee  
Robert Patterson, Head of Internal Audit

To: Governance and Audit Committee – 24<sup>th</sup> April 2019

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

Classification: Unrestricted

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**Summary:** This report provides an update on the forward Committee Work Programme following best practice guidance in relation to Audit Committees.

## **FOR DECISION**

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### **Introduction and background**

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

### **Current Work Programme**

3. Appendix 1 shows the latest programme of work for the Committee, up to April 2020. 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.

### **Member Development Programme**

4. 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.
5. Before the start of today's meeting, (which incorporates the Internal Audit and Counter Fraud plan for 2019-20) Members received a briefing and presentation on "Internal Audit Planning and Sources of Assurance"

6. No further training is planned for the July meeting but Members can request alternative or additional training if they wish, via the Chairman.

### **Recommendations**

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

**Robert Patterson**  
**Head of Internal Audit (03000 416554)**



## Committee Work Programme

## Appendix 1

Category Item	Owner	Apr-19	Jul-19	Oct-19	Jan-20	Apr-20
<b>Secretariat</b>						
Minutes of last meeting	Andrew Tait	✓	✓	✓	✓	✓
Work Programme	Robert Patterson	✓	✓	✓	✓	✓
Member Development Programme	Robert Patterson	✓	✓	✓	✓	✓
<b>Risk Management and Internal Control</b>						
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	Zena Cooke		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	Mark Rolfe		✓			
<b>Corporate Governance</b>						
Annual review of Terms of Reference of G & A	Robert Patterson Ben Watts		✓			
Debt Management	Cath Head		✓	✓		
Annual review of the Council's Code of Corporate Governance	Benjamin Watts		✓	✓		
LATCo Policies and Governance Structures (when required)	LATCO Board or originating Directorate		✓			

## Committee Work Programme

## Appendix 1

Category Item	Owner	Apr-19	Jul-19	Oct-19	Jan-20	Apr-20
<b>Internal Audit and Counter Fraud</b>						
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 plan report)	Robert Patterson	✓				
Review of Anti-Money Laundering Policy (part of progress report)	Robert Patterson			✓		
<b>External Audit (provided by Grant Thornton)</b>						
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	Zena Cooke	✓				✓
<b>Financial Reporting</b>						
Statement of Accounts & Annual Governance Statement	Zena Cooke / Cath Head		✓			
Revised Accounting Policies	Cath Head	✓				✓
Review of Financial Regulations	Emma Feakins	✓				✓
<b>Review of Companies which KCC has an Interest</b>						
Review of statutory accounts	Emma Feakins	✓				✓



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By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 24<sup>th</sup> April 2019

Subject: **APPOINTMENT OF AN INDEPENDENT MEMBER TO THE GOVERNANCE AND AUDIT COMMITTEE**

Classification: Unrestricted

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**Summary:** This report is a follow up to the in-principle decision to appoint an independent member to this Committee for a 2-year trial and develops underlying detail around the role and remit as well as recruitment timetable. It also develops the concept of annual confidential meetings with the Heads of internal and external audit

**Recommendation: FOR DECISION**

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## Introduction

1. At the January meeting of this Committee the 'in principle' decision to appoint an independent member to this Committee for a trial period of 2 years subject to further work on the appointment process and firming up the person specification. In addition, further research would be undertaken on implementing a process of introducing annual confidential meetings with the heads of internal and external audit.

## Independent Member

1. As a reminder in 2018 CIPFA updated its Position Statement on Audit Committees and as a matter of good practice recommended that authorities consider the appointment of an independent member. The advantages of having an independent member on the Committee are:
  - a) Greater levels of apolitical independence
  - b) Bridging certain skills gaps and expertise
2. Since the January G&A Committee the National Audit Office have published their report on local authority governance. A key component of the report focused on the effectiveness of audit committees. The report noted that nearly a third of local authorities now have one or more independent members on their audit committees and that there were clear benefits to the effectiveness and independence of such committees. As such the increasing use of independent members on audit committees is one of the key strategic recommendations of the NAO report. This underlines the need for such a position.
3. Following on from the meeting the person specification has been amended according to initial comments received from Members. This revised specification is attached in Appendix A with amendments highlighted — more particularly the need to abide to the Constitution and relevant aspects of the Members Code of

Conduct. The Chair has also proposed a small panel of Members ratify this specification after this meeting.

4. Changes may be required to the Terms of Reference and Constitution of the Committee and these can be undertaken by the General Counsel
5. It would be beneficial for the Independent Member to start their two-year tenure with the July meeting of this Committee. Therefore, recruitment should start as soon as possible and that a Member panel be created to recruit a suitable individual. An outline advert is attached in Appendix B.

### **Annual confidential meetings with the Heads of Internal and External Audit**

6. At the January meeting the Committee also agreed in principle to hold annual confidential meetings with the heads of internal and external audit as a matter of good practice particularly providing alignment with common practice in the third and private sectors.
7. Research has shown that the Committee effectively already has the powers to do this. Therefore, the only issue is timing. It is suggested that this process is initiated in July, particularly as the impending retirement of the current Head of Internal Audit could act as an 'exit discussion'.

### **Summary**

8. The proposals set out in this report are intended to further improve the G&A Committee's role and remit in line with recommended best practice. The need for changes such as the introduction of an Independent Member have been underlined by the recommendations from the recent NAO report.

### **Recommendations**

9. Members are asked to agree the following:
  - a) the appointment of an independent member starting from the July 2019 meeting
  - b) the basis of this appointment is referenced to the specification in Appendix A
  - c) A Member recruitment panel be set up for this purpose
  - d) The General Counsel makes appropriate amendments to the Terms of Reference and Constitution of this Committee as necessary
  - e) The concept of annual confidential meetings with the Heads of Internal and External Audit is introduced with the July Committee.

### **Appendices**

***Appendix A – Specification for independent audit committee Member***

***Appendix B – Outline advert for an independent audit committee Member***

**Robert Patterson**  
**Head of Internal Audit**  
**(03000 416554)**

## **Appendix A**

### **Independent Governance and Audit Committee Member**

#### **Background**

Kent County Council operates a Governance and Audit Committee that is accountable directly to Council, whose role is to:

- provide the Council with independent:
  - assurance of the adequacy of the risk management framework and the internal control environment
  - review of its governance, risk management and control frameworks.
- oversee:
  - the financial reporting and annual governance processes
  - internal audit and external audit, helping to ensure effective relationships exist and efficient and effective assurance arrangements are in place.

The full Terms of Reference for the Audit Committee is attached.

It operates in compliance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) good practice guidance and Position Statements last updated in 2018.

#### **Duties and Responsibilities / Time Commitment**

To attend Audit Committee meetings as and when required. The Committee normally meets four times a year in April, July, October and January. The Committee meets during the day, normally starting at 10.00. Meetings last between 2 to 3 hours and you would also need to allow for some preparation time.

To attend training events as required which are normally held prior to the start of each meeting.

To actively promote good governance, risk management and control in the delivery of the Council's functions.

To be an independent source of support for Council's Governance and Audit Committee providing independent challenge and scrutiny in response to reports presented to it.

**To abide with the Council's Constitution and relevant elements of the Members Code of Conduct.**

#### **Knowledge and Skills**

The candidate for the position of Independent Member of the Audit Committee will ideally have:

- extensive experience of working with or being a member of an Audit Committee
- a financial or audit type background and appropriate experience of financial management
- a good understanding of governance, risk management and control
- integrity, objectivity, discretion and the ability to make decisions
- an ability to analyse complex information, question, probe and seek clarification so to come to an independent and unbiased view
- experience of working in or with large, complex organisations with an understanding of the political environment that local authorities operate within
- good interpersonal and communication skills.

You should not:

- have been a member or employee of the Council at any time during the last 2 years
- be a relative or close friend of a member or officer of the Council
- be engaged in any party political activity
- have any criminal convictions or be an un-discharged bankrupt
- have any significant business dealings with the Council.

## **Remuneration**

This is a voluntary position.

A remuneration for expenses of £1,500 per annum.



## **Appendix B**

### **Outline advert for an independent Member of the Governance and Audit Committee**

Kent County Council is looking for an independent member to join its Governance and Audit Committee.

The Governance and Audit Committee provides independent assurance on the arrangements the Council has in place to successfully manage its business (which includes risk management, internal control, financial reporting and governance).

In doing this, the Committee plays an important role in supporting the delivery of services to the community.

If you are interested in this position, please send a CV to Robert Patterson, Head of Internal Audit at [Robert.Patterson@kent.gov.uk](mailto:Robert.Patterson@kent.gov.uk). If you would like to discuss the role, he can be contacted on tel: 03000 416554.

Attached are a Person Specification for the role and the Terms of Reference for the Governance and Audit Committee.

Applications are required by **xxxxxx**

If successfully shortlisted, you will be invited for a short interview with a panel of Members from the Committee including the Chair and Vice Chair at a mutually convenient date.

The Head of Internal Audit will also be in attendance.

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By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 24<sup>th</sup> April 2019

Subject: **INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT**

Classification: Unrestricted

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**Summary:** This report summarises the outcomes to date against the 2018/19 internal audit and counter fraud plan as well as tracking management's response to agreed actions from previous audits.

**Recommendation: FOR ASSURANCE**

## Introduction

1. This report, and the enclosed Appendix A, summarises:
  - The key outcomes from completed Internal Audit reviews and Counter Fraud investigations since January 2019
  - An indicative Internal Audit opinion for 2018/19 based on audit outcomes to date
  - Progress against the 2018/19 Internal Audit Plan, proposed revisions and key performance indicators
  - Future plans and improvements

## Outcomes and Opinion

2. From our coverage to date we have concluded that the County Council continues to have **adequate and effective controls and governance processes** as well as robust systems to deter incidences of material fraud and irregularity. We have based this opinion on the following:
3. Positives
  - 38% of systems and/or functions have been judged with a substantive assurance or better
  - The audit of the Council's underpinning values and behaviours was largely positive. The overwhelming majority of officers and Members involved in the audit displayed high standards of conduct. Effective systems are in place to re-enforce the integrity of decision making and protect the reputation of the Council and that it acts in the public interest
  - The governance review of the CYPE Directorate was also largely positive. The underlying culture is open and inclusive whilst embarking on a period of substantive change
  - A continuing pattern of general robustness of key financial systems is emphasised in this period including the 'High' assurance given to Treasury Management.
  - Satisfactory ICT project management is evidenced in relation to cloud navigation

- Effective data quality and control in relation to the Liberi system that underpins decisions on vulnerable children and families
- Positive progression in embedding GDPR changes across the organisation and raising awareness, although reporting, monitoring and evidencing lessons learnt from data breaches needs to be improved.
- There have been no incidences of significant fraud, irregularity or corruption

#### 4. Areas for Development

- 12% of audits completed to date have an opinion of limited or worse
  - Although the Values and Behaviours audit was positive, there were a number of unconnected areas for improvement including the need for better formal recognition of the Council's stated values, a number of responses to the Corporate Staff Survey or tailored surveys which may point to different cultures existing within Divisions and Teams (accepting that this is not necessarily wholly negative), better annual formal governance reporting from LATCO's and the need for improved take up of Member training and enhanced Member training when reaching Cabinet level.
  - The Governance Review of CYPE highlighted uncertainties over how savings would be delivered to meet the Council's medium-term financial plan and that there was an absence of a formal business case to underpin the change programme.
  - In relation to Developer Contributions the audit of the new SMS (Section 106) system evidenced enhancements and improvements on previous systems but testing showed there are still risks of omissions of planning obligations, including no automatic interface with finance systems
  - Risks of forfeiture of the new CIL system for developer contributions if there is continuing disengagement by the Districts
  - In relation to Property Statutory Compliance there are concerns that the Council is unable to identify its responsibilities and liabilities in relation to non TFM properties.
5. In making our opinion we also considered the outcomes from our more recent work in previous quarters including the last financial year.
6. In relation to Counter Fraud work there have been 276 irregularities reported and investigated since the start of 2018/19 of which 172 have been concluded. The total value of all irregularities reported to us is £482,000 to the end of March 2019. The highest areas of financial risk relating to fraud this year relate to false applications for financial support from families claiming to be destitute with no recourse to public funds (NRPF), misuse of direct payments and misuse of blue badges. In relation to blue badge fraud we secured the first conviction following persistent misuse.

#### **Indicative End of Year Internal Audit Opinion for 2018/19**

7. It is increasing good practice for an internal audit function to provide a year end opinion closer to the end of the financial year and in advance of the formal annual governance statement (AGS) and approval of the annual accounts.
8. For 2018/19, based on the audit work undertaken to date my interim opinion will be no less than **"adequate"**. This reflects the increasing proportion of individual audits having this opinion including more significant / material audits. There are several reports in the 2018/19 audit plan still in progress and as such the final opinion may ultimately differ.

## **Member Challenge**

9. In reviewing this report, Members might consider whether:

- audit findings and outcomes correlate with the interim overall opinion being given
- the audit judgements against selected corporate risks provide assurance that these risks are being adequately managed
- management actions and responses are appropriate for the issues raised by audit
- any areas of poor performance which warrant further review/ call in or follow up by this Committee

## **Recommendations**

10. Members are asked to note:

- Progress and outcomes against the 2018/19 Audit and Counter Fraud plan
- The indicative Internal Audit opinion for 2018/19
- Amendments to the 2018/19 Audit plan

## **Appendices**

### ***Appendix A - Internal Audit and Counter Fraud Progress Report April 2019***

**Robert Patterson**  
**Head of Internal Audit**  
**(03000 416554)**

# Kent County Council

## Internal Audit and Counter Fraud Progress Report

April 2019

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## Internal Audit and Counter Fraud Progress Report

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# 1. Executive Summary and Opinion

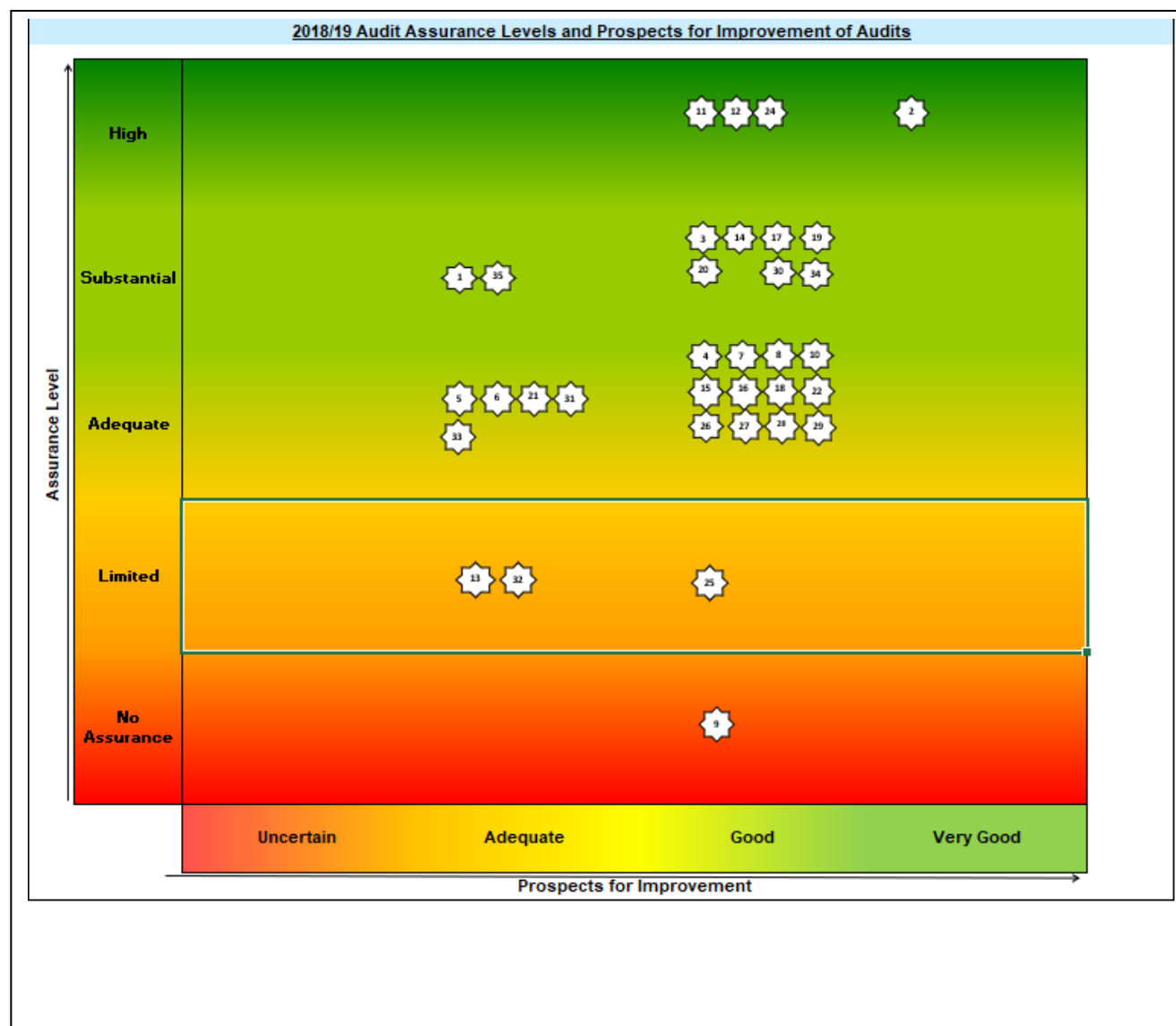
**1.1** This report details the cumulative internal audit and counter fraud outcomes for 2018/19 to date. It particularly focuses on the progress and delivery of internal audit and counter fraud work since January 2019. It highlights key issues and patterns in respect to internal control, risk and governance arising from our work.

**1.2** From our work to date we have concluded that Kent County Council has:

- Adequate and effective financial and non-financial controls and governance processes including systems to deter incidences of material fraud and corruption

**1.3** Figure 1 (right) maps the outcomes from the completed 2018/19 internal audits to date. Summaries of those audits completed since January are detailed in Annex 1.

**1.4** Where audits have identified areas for improvement, management action is agreed. All audits are allocated one of five assurance levels together with four levels of prospects for further improvement, which represents a projected 'direction of travel'. Definitions are included in Annex 2.





# 1. Executive Summary and Opinion

**Audit Opinion October G&A Committee**

No	Audit	Judgement	Prospects for Improvement
1	Financial Assessments Follow-up	Substantial	Adequate
2	CART Follow-up	High	Very Good
3	Client Financial Affairs	Substantial	Good
4	Recruitment and Pre-Employment Checks	Adequate	Good
5	Coroners Service Financial Controls	Adequate	Adequate
6	Direct Payments - Adults	Adequate	Adequate
7	Youth Services Commissioned Contracts	Adequate	Good
8	Direct Payments - Childrens	Adequate	Good
9	Oakwood	No	Good

**Audit Opinion January G&A Committee**

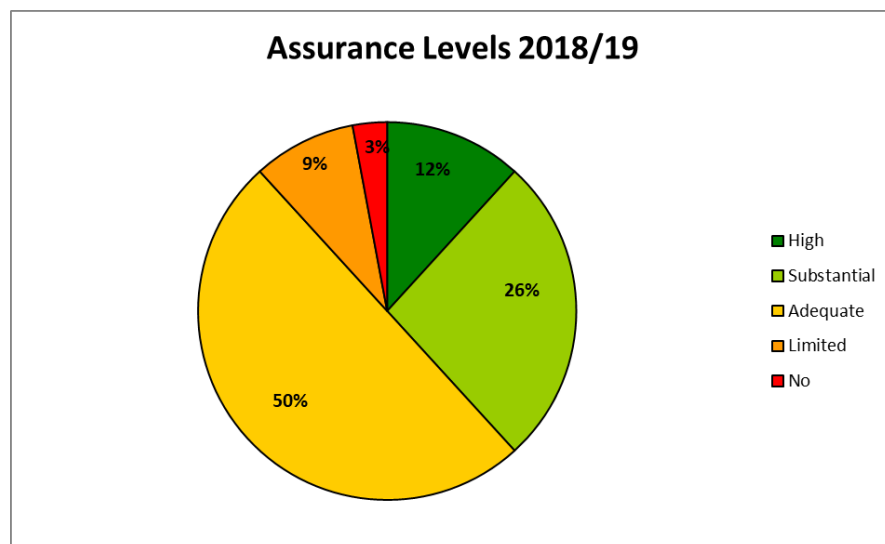
No	Audit	Judgement	Prospects for Improvement
10	Payments Process	Adequate	Good
11	Pension Contributions	High	Good
12	Risk Management	High	Good
13	SEND	Limited	Adequate
14	Deferred Payments	Substantial	Good
15	Lifespan Pathway Post Implementation	Adequate	Good
16	Virtual Schools	Adequate	Good
17	Concessionary Bus Fares	Substantial	Good
18	ICT Oracle Application	Adequate	Good
19	Troubled Families *	Substantial	Good
20	ICT SWIFT Replacement	Substantial	Good

**Audit Opinion April G&A Committee**

No	Audit	Judgement	Prospects for Improvement
21	IFA & Residential Placements	Adequate	Adequate
22	Property Income & K2	Adequate	Good
23	Safeguarding (Children) - Advisory **	N/A	N/A
24	Treasury Management	High	Good
25	Property Statutory Compliance	Limited	Good
26	ICT Cloud Navigation	Adequate	Good
27	CYE Governance *	Adequate	Good
28	Data Protection incl. GDPR	Adequate	Good
29	Values & Behaviours (Ethical Framework) *	Adequate	Good
30	Liberi Data Quality	Substantial	Good
31	Developer Contributions (Section 106)	Adequate	Adequate
32	Developer Contributions (CIL)	Limited	Adequate
33	Schools Themed Review - Safeguarding *	Adequate	Adequate
34	Establishments Themed Review	Substantial	Good
35	ICT Information Governance	Substantial	Adequate

\* - Audits currently at Draft Report stage.

# 1. Executive Summary and Opinion



Assurance Level	No	%
High	4	12%
Substantial	9	26%
Adequate	17	50%
Limited	3	9%
No	1	3%

- 1.5** As at the start of April we had completed 35 substantive audits including 14 in this quarter This has included two pieces of significant work around the governance of the CYPE Directorate and the values and behaviours (ethics) across the Council. At the other end of the scale we have undertaken two thematic reviews involving audits of 20 schools and 4 establishments. Significant fieldwork is in progress for a further 9 audits.
- 1.6** The overall outcomes to date have been generally satisfactory but it is notable that for this year half the audits to date have received an 'adequate' assurance rating. This rise in the proportion of 'adequate' outcomes follows a consistent trend over the past 18 months and inevitably has an impact on the interim end year opinion work. (See below)

# 1. Executive Summary and Opinion

Positives	Areas for Development
<ul style="list-style-type: none"> <li>• 38% of systems or functions have been judged with a substantial assurance or better</li> <li>• The audit of the Council's underpinning values and behaviours was largely positive. The overwhelming majority of officers and Members involved in the audit displayed high standards of conduct. Effective systems are in place to re-enforce the integrity of decision making and protect the reputation of the Council and that it acts in the public interest</li> <li>• The governance review of the CYPE Directorate was also largely positive. The underlying culture is open and inclusive whilst embarking on a period of substantive change</li> <li>• A continuing pattern of general robustness of key financial systems</li> <li>• adequate ICT project management is evidenced in relation to cloud navigation</li> <li>• Effective data quality and control in relation to the Liberi system that underpins decisions on vulnerable children and families</li> <li>• Positive progression in embedding GDPR changes across the organisation and raising awareness,</li> <li>• There have been no incidences of significant fraud, irregularity or corruption</li> </ul>	<ul style="list-style-type: none"> <li>• 12% of audits completed to date have an opinion of limited or worse</li> <li>• Although the values and behaviours audit was positive, there were a number of unconnected areas for improvement including the need for better formal recognition of the Council's stated values, a number of responses to the corporate staff survey or tailored surveys which may point to different cultures existing within Divisions and Teams (accepting that this is not necessarily wholly negative), better annual formal governance reporting from LATCO's and the need for improved take up of training by Members and enhanced Member training when reaching Cabinet level.</li> <li>• Doubts over the CYPE Directorate to deliver savings required by the Council's medium-term financial plan</li> <li>• In relation to developer contributions the audit of the new SMS (Section 106) system evidenced enhancements and improvements on previous systems but there are still risks of omissions of planning obligations, particularly as there is no automatic interface with finance systems</li> <li>• Risk of forfeiture of income from the new CIL system for developer contributions if there is continuing disengagement from the Districts</li> <li>• In relation to property statutory compliance there are concerns that the Council is unable to identify its responsibilities and liabilities in relation to non TFM properties.</li> </ul>

**1.7** In relation to counter fraud work there have been 276 irregularities reported and investigated since the start of 2018/19 of which 172 have been concluded. The total value of all irregularities reported to us is £482,000 to the end of March 2019.

**1.8** Overall the unit has reviewed systems or activities with a combined spend / turnover of an estimated **£1.06 billion** since the start of 2018/19


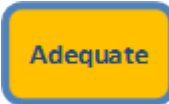








# 1. Executive Summary and Opinion

## Interim End of Year Internal Audit Opinion

- 1.9** We normally produce the formal year end audit opinion in July in tandem with the annual accounts and ratification of the annual governance statement (AGS). This will continue for 2018/19 but it is increasing good practice for audit functions to endeavour to provide an opinion closer to the end of the financial year and in advance of the AGS. For example, we already provide an April opinion to Commercial Services.
- 1.10** For 2018/19, based on the work that has been undertaken to date, my interim overall opinion will be no less than “**Adequate**”. This reflects that the largest proportion of opinions to date (final or proposed) for individual audits has been “Adequate”. This includes assignments which will carry the most weight when formulating the overall opinion because of their significance on the organisation such as Values and Behaviours, GDPR and the CYPE Governance Review.
- 1.11** There have been several “Substantial” opinions and four “High” opinions. In the main however, these have been given where audits have focused on smaller areas within the organisation such as Client Financial Affairs, or financial controls such as Treasury Management. The exception is our risk management audit which received “High” assurance. A positive is the relatively small number of audits to date which have received a “Limited” (or “No”) assurance.
- 1.12** At this stage, the audit plan is still being completed and the interim opinion may change as work is completed and finalised. Our audit of Strategic Commissioning is in progress and we are about to start an audit of relationship management between KCC and all our LATCos. We will also be undertaking our annual review of controls around the preparation of the AGS.
- 1.13** 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:

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

### RISK: Safeguarding – Protecting Vulnerable Children

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
IFA and Residential Placements	Adequate 	Adequate 	1	7	1
Schools Themed Review – Safeguarding (Final draft)	Adequate 	Adequate 	1	2	1
Child Safeguarding – quality assurance frameworks and case file audits	Advisory / consultancy				
CYPE Governance	Adequate 	Good 	1	5	0
Children's Data Quality – Liberi	See later section				
Special Educational Needs and Disability	Limited 	Adequate 	3	4	1
Virtual Schools Kent	Adequate 	Good 	1	7	2

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk




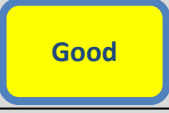


Lifespan Pathway Post-Implementation	Adequate 		1	3	0
Troubled Families – Earned Autonomy (Final Draft) (also relates to adult risk below)	Substantial 		0	2 - TBC	0
Children's Allowance Review Team (follow up)	High 		1	3	0
Direct Payments – Disabled Children	Adequate 		1	2	1

- 2.1** Our audit of Independent Foster (IFA) and Residential Placements found generally robust controls to mitigate financial and safeguarding risks. Where quality or safeguarding issues had been identified with a provider they had been appropriately resolved. Despite following appropriate commissioning practice KCC does not have strong purchasing power because of the low level of placements and we found of the top 5 providers in terms of spend, only one was on a preferred list. As a result, KCC has been unable to realise planned savings.
- 2.2** Our themed schools review this year related to safeguarding, where we audited 20 sites. Most schools sampled operated satisfactory safeguarding controls, demonstrating appropriate training arrangements, managing allegations and holding secure safeguarding records. However, we identified a number of areas for improvement such as the need to update safeguarding policies and site safeguards. Our one high risk issue related to vetting where currently schools are not directed to undertake regular cyclical DBS checking of staff
- 2.3** During this period we undertook an advisory review of the Council's Child Safeguarding quality assurance and case file monitoring processes. Overall, we found that the QA framework is a good evidenced based model and that good work is being undertaken in these areas. We found that currently there is an absence of a central point to capture and disseminate lessons learnt and good practice.
- 2.4** As part of the governance review of the CYPE Directorate we reviewed safeguarding issues. We found a strong independent chair of the Safeguarding Board, which is being further strengthened with the introduction of a Children's Assurance Board comprising Members and officers. The review of the safeguarding quality assurance framework concluded there was a culture of continuous improvement. Overall the Directorate placed a clear emphasis on stakeholder engagement with an over-arching focus on achieving best outcomes for children.

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

- 2.5** During this quarter we also examined the Liberi system that provides data and management information feeding into decisions on child protection, children in need children in care and early help. The outcomes are detailed in a later section (below).

### RISK: Safeguarding – Protecting Vulnerable Adults

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Deferred Payments	Substantial 	Good 	0	3	2
Client Financial Affairs	Substantial 	Good 	0	2	3
Direct Payments – Adults	Adequate 	Adequate 	0	4	1

- 2.6** During this quarter there has been no new audit work relating to this risk.

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

### RISK: Evolution of KCC's Strategic Commissioning Approach

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Youth Services Commissioned Contracts	Adequate 		0	5	4
Oakwood House	No 		5	4	0

- 2.7** We did not undertake any new audits for this risk area in the period under consideration. However, there are related issues within the IFA and Residential Placements audit detailed above. An audit of Strategic Commissioning is in progress.

### RISK: Resourcing Implications arising from Children's Services Demand


Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
CYPE Governance (Final Draft)	Adequate 		1	5	0

- 2.8** The CYPE Governance Review showed there has been considerable progress in reconfiguring the Directorate with positive evidence surrounding leadership, culture and strategy. At the time of our fieldwork there was still considerable change with a move towards a new operating model including integration of early help and specialist children's services which has been wisely tested through four pilots. A significant challenge is the delivery of savings that build into the Council's medium-term financial plan. There were several gaps in how these savings would be delivered and an inability by senior managers to detail how the savings programme would be achieved. Indeed, there is no formal business case underpinning the complete Change for Kent Children programme. At the time of our audit there were funding pressures of £6.8 million including material overspends in areas such as Special Educational Needs.



## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk








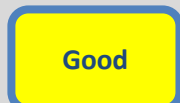




### RISK: Access to Resources to aid Economic Growth and Enabling Infrastructure

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Developer Contributions (Sect 106)	Adequate 		2	3	3
Developer Contributions (CIL)	Limited 		1	3	0

- 2.9** One key source of infrastructure resource available to the County Council is derived from developer contributions. We examined the current Section 106 system as well as the new Community Infrastructure Levy (CIL) that is now being used by 4 Districts in the County.
- 2.10** In relation to Section 106, Members may recall that we undertook an audit that determined a limited assurance back in 2015 and this year's audit was effectively a follow up on the newly introduced Single Monitoring System (SMS) used to log and track contributions. In general, we found that it is now operational, is effectively tracking planning applications and obligations, and is used and updated across the Council. However, there are weaker controls governing the uploading of obligations and those that are manually transferred to finance spreadsheets. Our testing found a small number of omissions.
- 2.11** With the CIL, the key risk to the County Council is the sufficiency of funding from this source compounded by a lack of agreed principles between the Council and the charging (District) authorities. Currently for those Districts that operate CIL there are no agreed guidance, policies or procedures at present, largely due to disengagement by the Districts.

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

### Critical Financial and Corporate Support Systems

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Property Income and K2 (follow up)	Adequate 	Good 	0	1	0
Treasury Management	High 	Good 	0	0	1
Payments Processing	Adequate 	Good 	1	4	2
Pensions Contributions	High 	Good 	0	0	2
Recruitment and Pre-Employment Checks	Adequate 	Good 	1	5	2
Financial Assessments (Follow up)	Substantial 	Adequate 	1	1	0






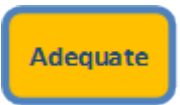





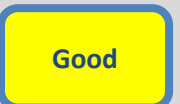
- 2.12** An interim report and opinion was delivered to January G&A relating to Property Income and the new 'K2' (property database) system. The full summary report is included in Annex 1. Members will recall that, in summary, we found the new system was being appropriately managed and the first phase of the property transfer had been successfully achieved with appropriate data cleansing and checking routines. Our testing found no material errors. Legacy issues do remain, including the transfer of data relating to properties held by other Directorates rather than the corporate landlord.

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

**2.13** Our audit of Treasury Management determined that it was well managed and controlled, and the Council is performing well when benchmarked against other representative local authorities.

### RISK: Cyber Attack Threats and their Implications / Information Governance



During this period, we have undertaken a series of ICT related audits with the following outcomes:

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
ICT Cloud Navigation (II)	Adequate 	Good 	0	3	0
Data Protection including GDPR	Adequate 	Good 	1	3	6
ICT Information Governance (Data Protection and Security Toolkit)	Substantial 	Adequate 	0	1	0
Liberi – Children’s Data Quality	Substantial 	Good 	0	1	2
ICT Oracle Application	Adequate 	Good 	1	0	1
SWIFT Application Replacement (Draft report)	Substantial 	Good 	0	2	0











## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

- 2.14** We examined the second phase of the Council's project management of Cloud based systems, and the outcomes were largely positive. Data migration procedures were well documented and tracked with comprehensive training manuals. Two recurrent issues remain from Phase 1 – namely a lack of transparency with financial management and the high turnover of programme managers.
- 2.15** The audit of Data Protection determined that there has been good progression in embedding the changes required under GDPR given the resources available and the size of the Council. At the time of our audit, there was still work to be completed through a competent project plan. Material issues to be resolved were the review and learning lessons from data breaches together with understanding and consistency of the application of Data Protection Impact Assessments (DPIA).
- 2.16** Associated with the above, we also undertook our annual independent examination of the Council's Data Security and Protection toolkit which is a necessary pre-requisite for information sharing with our NHS partners. As in previous years, we found a robust submission framework which is governed by a corporate grouping, and at the time of our audit sample testing of 48 tests (known as 'assertions'), found that 41 were complete and evidenced based. As in previous years, it is of moderate concern that insufficient evidence was available for the other areas so close to the submission date, but we are assured by management that deadlines will be met.
- 2.17** The Liberi system provides management information in relation to children's services and therefore is critical to the care of vulnerable children. Overall, the outcomes were positive as the audit evidenced good data input controls with regularly produced data quality reports and dashboards. Our testing provides confidence that systems allow KPI's to be a true reflection of practice and data quality is fit for purpose to support decision making processes.

### Audit of Other Activities

Audit	Assurance Level	Prospects for Improvement	Actions agreed		
			H	M	L
Values and Behaviours (Ethical Frameworks) <i>Final Draft</i>	Adequate 		1	10	0

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

Property Statutory Compliance	Limited 		2	1	2
Establishments Themed Review - Adults LD Respite Services	Substantial 		0	2	0
Concessionary Bus Fares	Substantial 		0	0	2
Risk Management	High 		0	1	0
CRC Energy Efficiency Scheme	Compliant	N/a	0	0	0
Coroners Service Financial Controls	Adequate 		0	4	0

- 2.18** There is now a good practice requirement for internal audit functions to periodically examine an organisations ethical frameworks and cultures. This year, we undertook this significant piece of work by independently examining the Council's underpinning values and behaviours. This is a major component of our opinion into the AGS. Overall, we concluded that the risk of a significant ethical / governance failure is being reasonably managed. It is evident that considerable investment is being made to ensure the organisation behaves with integrity and demonstrates an ethical commitment enshrined in the Council's 3 published core values. Appropriate strategies, policies and procedures were underpinned by the majority of officers and Members we interviewed, displaying high standards of conduct. Overall, the Corporate Staff Survey has reflected positive outcomes in relation to ethics and behaviours. We did find a number of unconnected areas for improvement, including a need for a better formal recognition of the Councils core values by officers and Members, a number of responses to the Corporate Staff Survey or tailored surveys we undertook may point to different cultures existing within Divisions and teams, the need for enhanced annual governance reporting from most LATCO's, and better take up of training from Members and the need for tailored training when Members take up Cabinet responsibilities.
- 2.19** Overall, we found the systems and controls to ensure statutory compliance in relation to the council's property responsibilities and liabilities were insufficient. A key deficiency was the inability by our managing agent (Gen2) to identify properties which are not covered by the existing

## 2. Mapping Internal Audit Assessments and Outcomes against Corporate Risk

TFM contracts and their compliance status. We found that when compliance certification checks and tests are carried out, resultant works are not being properly monitored. Furthermore, where KCC lets a property, we found material numbers of tenants do not provide confirmation to the Council that statutory compliance checks have taken place.

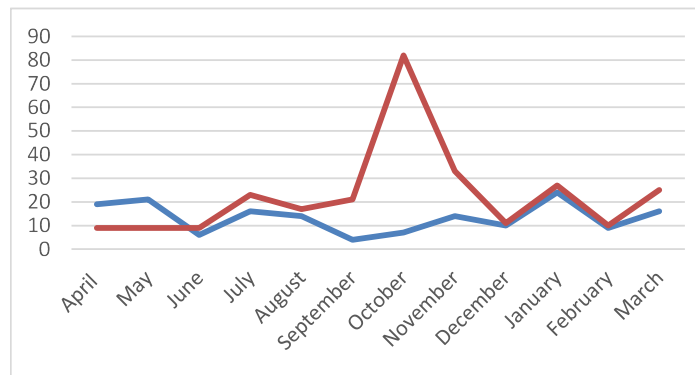
- 2.20** During the quarter we completed a thematic review of the three adults learning disability centres run by KCC. Overall, the outcomes were positive with the centres generally well run, controlled and operating appropriate safeguards. In total, 28 individual recommendations were made with high priority issues around staff training. We also had concerns over utilisation and take up of the service with only one centre achieving consistently high occupancy levels.

# 3. Counter Fraud and Corruption

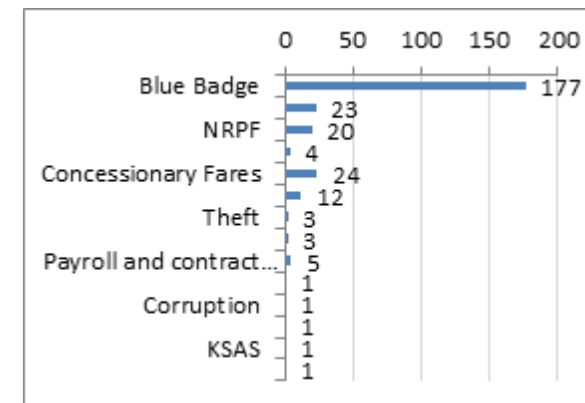
## Fraud and Irregularities

**3.1** The distribution and characteristics of the 276 irregularities reported to date show that the highest areas of financial risk so far this year are from false applications for financial support from families claiming to be destitute with no recourse to public funds (NRPF) (around £180k) and from misuse of Blue Badges (around £100k).

**Number of Irregularities Reported by Month**

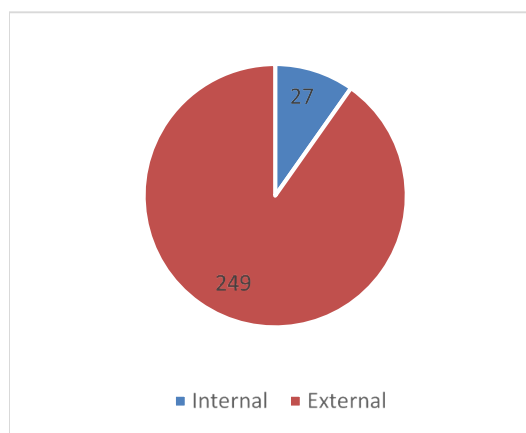


**Irregularities by Type 2018/19**



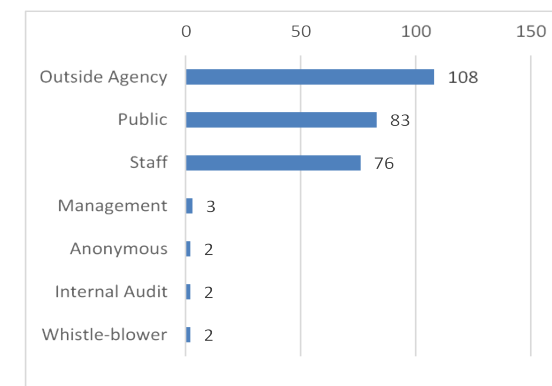
**3.2** We continue to actively support Social Care in both areas. For example, counter fraud staff are now regularly accompanying social workers during interviews with families that present as NRPF.

**Split between Internal & External Fraud 2018/19**



**3.3** The majority of the 276 irregularities reported relate to the misuse of the Blue Badge (177) and concessionary fare schemes (24). These types of fraud are low value, high volume activity. We have recently increased our capacity to manage these referrals quickly which is reflected in the increased volume of activity during October and November 2018.

**Source of Irregularities 2018/19**



### 3. Counter Fraud and Corruption

#### Counter Fraud Partnerships with District Councils

##### Kent Intelligence Network (KIN)

- 3.4 In relation to the Kent wide data matching operation (Kent Intelligence Network) where KCC is a substantive partner, it is pleasing to note that after partnering with a new software provider (Destin Solutions) we have achieved cashable savings of £360,000 by removing small business rate relief from companies that were no longer entitled to the discount.

##### Fraud and Corruption Self-assessment

- 3.5 As part of the 2018/19 Internal Audit and Counter Fraud plan, we agreed to undertake an independently validated self-assessment of the Council's approach to countering fraud using CIPFA's Code of Practice - Managing the Risks of Fraud and Corruption. The results of the validated assessment were positive, albeit with some areas for development. The overall conclusion was as follows:

*'The organisation has reached a good level of performance against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. This means that the organisation has put in place effective arrangements across many aspects of the counter fraud code and is taking positive action to manage its risks. The organisation is performing well against the counter fraud code and is actively working to improve its resilience to fraud and to manage its fraud risks. There are some areas of weakness which could undermine resilience, and these should be reviewed. In addition, the organisation should consider further opportunities to develop and extend the effectiveness of its counter fraud arrangements'*

The nine recommendations were:

- Anti-Fraud policies should specify the expected frequency of reviews to ensure they are updated on a regular basis and appropriately distributed to staff.
- The most recent version of the Anti-Fraud & Corruption Strategy should be added to the council website.
- The risk management policy should be updated to include guidance in the assessment of fraud risk and any specific fraud risks should be appropriately identified in the register.
- Project management templates should be updated to include consideration and assessment of fraud risks.
- References to how internal controls will be used to prevent fraud should be added to the Anti-Fraud Strategy.
- The anti-fraud strategy should be updated with details of how the council will publicise its counter fraud activity.
- The Council should take steps to ensure it publicises all 'good news stories' relating to counter fraud activity, such as successful prosecutions of those found to have committed fraud against the council.
- The anti-fraud strategy should be updated with the inclusion of a sanctions policy (or a separate policy produced) that broadly sets out the council's approach to determining the appropriate course of action for proven cases.



### 3. Counter Fraud and Corruption

- A mechanism for monitoring staff acceptance of key policies should be put in place to strengthen the council's position with regards to actions that may be taken in relation to non-compliance and fraud.

#### **First Prosecution**

**3.6** In February this year we secured our first conviction for Blue Badge fraud. Laura Halford was convicted on four counts of fraud and was sentenced to a three-year conditional discharge (the maximum allowed) and ordered to pay £750 costs to the Council. The prosecution was reported favourably in the local press.

## 4. Internal Audit and Counter Fraud Performance

- 4.1 Performance against our targets to the end of March 2019 are shown below. Overall, the inputs, outputs and outcomes are in line with our plans for 2018/19

Performance Indicator	Target	Actual
<b>Outputs</b>		
90% of Priority 1 audits completed (by year end)	82%	80%
20% of Priority 2 audits completed	18%	21%
Draft audit reports issued within agreed date on the engagement plan	60%	25%
No of fraudulent incidents / irregularities recorded		
<b>Outcomes</b>		
% of high priority / risk issues agreed	N/A	100%
% of high priority / risk issues implemented	N/A	
% of all other issues agreed	N/A	100%
% of all other issues implemented	N/A	
Client satisfaction	90%	88%
Value for money / efficiency savings identified	N/a	£1000
Total number of occasions on which a) fraud and irregularity was identified	N/A N/A	118 54
Total monetary value of (a) fraud and (b) irregularity that was detected	N/A	£194,065* £19,465*
Total monetary value of (a) fraud and (b) irregularity that was recovered	N/A	£24,965 £18,202

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

## 5. Work in Progress

**5.1** The next period up to the July 2019 Governance and Audit Committee final reporting includes completion of the following substantive audits:

- Strategic Commissioning
- Homecare
- Home to School Transport
- Intervention and Enablement
- Education Psychology
- Social Care Recruitment Incentives
- Client-side Relationship Management of LATCO's
- Governance Health Check and AGS work

**5.2** The only substantive audit due in quarter 4 that we will delay until early 2019/20 is the review of Adults Social Care Transformation. As such, with this exception, completion of the above audits will see completion of the 2018/19 plan.

**5.3** As detailed previously, we also have significant workloads across the Council's LATCO's (which are reported to separate Audit Committees) but this year we will be incorporating an opinion on LATCO's within our governance health check methodology and resultant end year opinion to the County Council.

**5.4** In terms of audit and counter fraud resources we are losing Paul Rock, our Counter Fraud Manager who has gained the position of Head of Internal Audit / Counter Fraud and Risk at L B Tower Hamlets from early June. We have already commenced recruitment for his replacement.

## 6. In Conclusion

- 6.1** 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.
- 6.2** In addition, line management have taken, or have planned, appropriate action to implement our issues and recommendations.
- 6.3** We believe we continue to offer added value to the organisation as well as providing independent assurance during a time of considerable challenge and change.

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## IFA & Residential Placements

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

We found that the process for placing children was robust in design to mitigate key financial and safeguarding risks and was generally working effectively in practice. Where quality or safeguarding issues had been identified with a provider, appropriate action had been taken.

However, KCC does not have strong buying power in the IFP or Residential market both because it does not make large volumes of placements and because other Local Authorities purchase placements in Kent.

### Key Strengths

- The tender for the framework was based on a detailed analysis of the market and of KCC's needs
- There are processes for identifying issues with providers and any issues identified had been dealt with appropriately
- There are ongoing mechanisms in place to check the quality of providers.
- Authorisation to search externally had been appropriately given and there were valid reasons why the young person could not be placed in house
- Placement plans (sections prior to sending to providers) had been properly completed and quality assured by the Total Placement Team
- There was evidence to support the social workers' choice of placement which took into account the desired needs, risks and outcomes.
- Placement costs were in line with the contract cost (where applicable) and payments made were accurate.
- Social workers had visited young people in new placements. There was evidence that they ensure the placement is meeting the desired outcomes.

### Areas for Development

- In nearly half of cases, there was no evidence that Safe Care Plans (or risk assessments for Residential Placements) had been completed.
- The success of the preferred provider arrangements has been mixed. Of the top five providers in terms of spend, only one is a preferred provider. As a result, KCC has been unable to fully realise the planned savings.

### Areas for Development (cont)

- The framework contract contains provisions for quality assurance visits to each provider throughout the duration of the contract however it is likely that provider visits will only be made where there are quality issues.
- The six monthly performance questionnaire sent to Lot 1 providers seems to be limited in terms of outcomes. There are no links between this and outcomes for the actual children in placement.
- Some IFP spot providers had not signed up to KCC's terms and conditions. The standard terms and conditions used for Residential placements is out of date and no longer fit for purpose.
- For 11% of placements tested, a placement planning meeting had not been held within the statutory 5 working days. For a further 9 placements the placement planning section on Liberi was incomplete or missing.
- In two thirds of cases sampled where an out of county placement had been made, KCC had not notified the host authority within 5 days.
- For 60% of residential placements tested, the weekly provider report was not consistently recorded on Liberi.

### Prospects for Improvement

- KCC is reviewing the approach to residential placements in order to obtain better value.
- The Commissioning Team are beginning a review of the new contractual framework which, contractually, is due to be undertaken annually
- KCC's ability to influence the market is limited as the market is not reliant on KCC business and as such it is difficult to see how any material value for money savings will be made

### Summary of management responses

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

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## Schools Themed Review - Safeguarding (Final Draft)

Audit Opinion	Adequate
Prospects for Improvement	Adequate

The majority of schools sampled are operating satisfactory controls around safeguarding, demonstrating adequate training arrangements to school staff, managing allegations and holding safeguarding records securely. However, we identified areas for further improvement such as updating safeguarding policies, site safeguards and the vetting processes in place. Currently schools are not directed to undertake regular DBS checks as a policy decision though schools have daily interactions with some of the most vulnerable children in the County.

### Key Strengths

- The majority of schools reviewed had Child Protection policy in place which was reflective of the revised safeguarding guidance for schools (Keeping Children Safe in Education (KCSIE) 2018).
- All schools visited had robust controls in place to manage safeguarding concerns. Records are held securely with access restricted. Some schools visited had either moved to an electronic system or were considering this.
- The schools visited had adequate procedures for managing allegations. Where an allegation been made within the last 12 months appropriate action was taken and advice sought from the LADO where necessary.
- The vast majority of schools had appropriate safeguards for online safety.
- Staff interviewed were aware of local arrangements for raising safeguarding concerns and whistleblowing procedures.
- We found that Designated Safeguarding Leads (DSL) at each school regularly disseminate safeguarding information to staff, parents and pupils.
- Safeguarding training had been completed at each school reflective of KCSIE 2018 with only small pockets of non-completion. However, where this was the case plans were already in place to rectify.

- Appropriate safeguards are in place for drop off and collection of children.

### Areas for Development

- Our visits identified a number of schools where employees had commenced employment before a DBS check had been completed.
- Schools are currently not directed to undertake renewals of DBS checks. Only 15% of schools visited had a process for rechecks in place.
- 20% of schools visited had not undertaken adequate vetting checks.
- We found each DSL had the responsibilities included within their job description however the vast majority had not made explicit their responsibilities in relation to online safety.
- We found that 25% of the schools visited did not have adequate safeguards in place to prevent unauthorised access.
- Though each school had a Child Protection Policy in place reflective of KCSIE 2018 we found that a number of schools associated safeguarding policies required ratification and had not been reviewed timely.

### Prospects for Improvement

- TBC
- TBC

### Summary of Management Responses

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

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## Children, Young People & Education Directorate Governance (Final Draft)

Audit Opinion	Adequate
Prospects for Improvement	Good

Evidence shows there has been considerable progress in reconfiguring the governance of the CYPE Directorate. Officers interviewed were positive about the leadership, culture and strategy of the Directorate. There was a clear emphasis on stakeholder engagement and partnership working and this extended to senior managers, front line staff and external agencies. At the time of fieldwork, the Directorate was undergoing significant change and inevitably there were some structural issues associated with the transition to the new operating model. It is evident there is a clear and sustained focus on achieving the best outcomes for children.

A significant challenge for the Directorate was delivery of the financial savings built into the Council's medium-term financial plan prior to the current Corporate Director coming into post. At time of fieldwork we found a number of material gaps in delivering this priority including an inability of senior managers to detail how the savings programme would be realised. However, this amount was seen as unrealistic through integration alone and subsequently a plan to achieve the savings has been agreed. The decision to integrate SCS and EH was made and then reported to full Council early in 2018 and pilots were undertaken with analysis of benefits realised however there is no detailed, formal business case underpinning the whole Change for Kent Children programme. At the time of our audit there was a funding pressure of £6.8 million including material overspends in areas such as Special Educational Needs and £2 million originally identified from staffing budgets as part of the integration programme.

### Key Strengths

- Feedback indicated a positive cultural change over the last few months Functions.
- Senior managers are using the management information effectively and feel they have what they need, with performance information provided at worker level in many cases.

### Key strengths (cont)

- There is a more strategic approach to the management of the Directorate resulting in a recognition that the previous 96-page vision and priorities document was unworkable and needed streamlining.
- The mission statement for the Directorate evolved through active engagement with staff at roadshow events hosted by the new Corporate Director.
- Assistant Directors across the Directorate demonstrated engagement in the Change for Kent Children.
- Integration of Early Help and Specialist Children's Services have been tested through four pilots and nine completed workstreams.
- There has been good communication about the integration works through multiple channels.
- The current Cabinet Member has detailed knowledge of the work of the Directorate and is actively engaged in pursuing successful delivery of services.
- There is a strong independent chair of the safeguarding board, with reporting lines to support independence including presentation of the Annual Report to Full Council.
- Independent safeguarding governance will be further strengthened with the introduction of the Children's Assurance Board comprising of Members and Officers.
- Our concurrent review of the Safeguarding Quality Assurance Framework concluded that there is a culture of continuous improvement and that good work is being undertaken to identify potential issues
- A wealth of management information is available to support service delivery produced by well-respected Management Information
- There are Performance, Outcome and Challenge meetings in place and work is under way, with the input of internal audit, to review the Quality Assurance Framework.
- There is a strong relationship between Integrated Children's Services (ICS) and Strategic Commissioning, with their roles clearly understood in the management of commissioned services.
- The positive relationship that exists with strategic commissioning has allowed ICS to engage with providers and the market more effectively.

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- Extended DMT is embedded and working well as a team; officers agreed that this added value and enabled better collaboration

## Children, Young People & Education Directorate Governance

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### Key strengths (cont)

- CYPE are genuinely trying to develop and work in effective partnerships with other stakeholders. This was evidenced through positive feedback we received from external stakeholders.
- Where contracts are poorly performing there is evidence that these are being robustly managed. There is also awareness and participation on corporate contract review groups.
- Generally budget pressures are understood, and good working relationships exist with finance colleagues

### Areas for Development

- Key to delivering the £4.5 m financial savings is the integration of Early Help and Specialist Children's Services. Although this has been successfully tested in pilots and workstreams and analysis has been undertaken, there is no substantive business case confirming that the benefits and planned outcomes including savings can be replicated across the county.
- At the time of fieldwork there was a lack of clarity from senior managers about how much of the £4.5m savings will be achieved. Since this time the directorate are on course to achieve savings of £1.6m through re-structuring and plans are being developed to achieve the remaining savings.
- We noted that formal financial information is not shared at DMT level and a case study of SEN showed that insufficient early action was taken when budget overspends occurred.
- There are teething troubles linked to the creation of two geographically-based divisions, as a result some of the messaging has been inconsistent
- There currently no terms of reference governing the CYPE Cabinet Committee, and a separate assurance group has been set up *Issue 3*
- Risk registers are not used to manage risks but are used to record risks centrally. Risk registers are updated through individual discussions with corporate colleagues. As a result, risks are not discussed as a collective

### Areas for Development (cont)

- Strategic Commissioning is not embedded across the directorate. Education, Planning and Access conduct their own procurement and contract management.
- There was also some fragmentation of approach between Disabled Children (who sit in Adult Social Care) and CYPE.

### Prospects for Improvement

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

- Scrutiny by the Cabinet Committee will be supplemented by an Assurance Board comprising of both Members and officers.
- The strategy is currently being reviewed so that it focuses on key objectives.
- The ICS Quality Assurance Framework is also being reviewed in furtherance of the objective to move towards outstanding. Internal Audit are currently providing consultancy work on the design of this framework. This does not include Education Planning and Access.
- We understand there have recently been two visits from Ofsted and the outcomes of these are awaited.

### Summary of Management Responses

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



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management team. The impact of some risks may therefore not be understood and actioned timely.

- Performance functions are not currently integrated.

## Developer Contributions – S106 Planning Obligations

Audit Opinion	Adequate
Prospects for Improvement	Adequate

Several teams across the Council analyse planning applications to identify site specific s106 planning obligations. Under the current regulatory regime, a maximum of five s106 planning obligations can be used to fund a specific infrastructure project, for example a school. To get around the restriction, some infrastructure developments are phased, with each phase treated as a separate project. To maximise funding, the limit means that developer contributions to fund school projects tend to come from larger developments. The Single Monitoring System (SMS) is now operational and is used to track individual s106 planning obligations, including the Council's obligation to repay unspent funds. There are, however, few controls that ensure that all obligations are uploaded and that the input data is accurate.

### Key Strengths

- The SMS is operational and facilitates tracking of planning applications and agreed s106 planning obligations.
- The Economic Development Team cross checks its own reviews of each District Council's weekly list of new planning applications.
- Economic Development reviews planning applications on behalf of several teams across the Council.
- The Education Planning and Access Team and the Highways Team both forecast future need based on each district council's Local Plans.
- The close, locally-focused engagement between Principal Planners in Highways and their counterparts in District Councils promotes identification of highway related infrastructure needs linked to developments.
- There is a comprehensive user manual that describes the procedures for storing, administering and tracking s106 planning obligations.
- The unique planning application number is consistently used to identify the potential and actual s106 planning obligations linked to the application.

### Areas for Development

- Not all administrators of the SMS have received appropriate training.
- There are inadequate procedures to reduce the risk of omissions and errors in the records of s106 planning obligations in SMS.
- There has not yet been a formal review of SMS.
- Tariff-based requests for s106 planning obligations (used for libraries, social care, youth services and community learning & skills) that are not clearly linked to infrastructure needed to mitigate the impact of additional demand may be turned down by Local Planning Authorities.
- For larger infrastructure developments funded through s106 developer contributions, the Council divides such infrastructure into phases and seeks five planning obligations for each phase. There is no documented risk-based policy supporting this practice.
- Using the "expiry date" facility to track automatically the status of individual payment triggers for s106 planning obligations.
- There are no procedures for tracking and reporting the receipt and expenditure of s106 contributions.

### Prospects for Improvement

- Proposals to use the SMS to track and monitor payment triggers, allocate planning obligations, record payments received and expended, and monitor repayment obligations.
- A Single Communications Channel to establish a single, clear and specific response to District Councils and Developers about the Council's total infrastructure need.

### 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	3	1

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- In SMS, there is the facility to store documents relevant to the Council's request for developer contributions.

Low Risk	5	3	2
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### Developer Contributions – Community Infrastructure Levy

Audit Opinion	Limited
Prospects for Improvement	Adequate

There is uncertainty and concerns regarding the sufficiency of funding which will be made available through Community Infrastructure Levy (CIL) and a lack of agreed principles governing the collaboration between the CIL Charging Authorities and KCC. The Council does not yet have any guidance, policies or procedures for managing its engagement with CIL Charging Authorities. There is currently no structured way for the Council to record and apply the lessons from its engagements with CIL Charging Authorities. Even though KCC feels largely disempowered in the CIL process, it should use the collected lessons to make its relationships with CIL Charging Authorities as effective as possible. Currently, there is a notable risk that the Council will not secure the level of funding through CIL receipts that it needs to meet the cost of infrastructure that is necessary for the Council to meet its statutory duties e.g. provision of school places.

#### Key Strengths

- The Council has obtained legal advice about its influence in the setting of CIL charges and the list of infrastructure projects funded by the charge.
- The Council actively exercised its right to participate in the consultation process when Maidstone Borough Council (MBC) adopted CIL.

#### Areas for Development

- The Council does not have any formal guidance, policies or procedures for managing its engagements with CIL Charging Authorities with the objective of securing CIL funding for priority infrastructure.
- There is no mutually agreed memorandum of understanding (MoU) between the Council and any of the CIL Charging Authorities setting out the principles necessary to support effective engagements in CIL related matters.
- The Council has not established a forum for capturing lessons associated with CIL and for feeding them back to teams.
- We noted that some of the services which have a lower level requirement for CIL funding (such as Libraries, Youth Services and Community Learning & Skills) are not consulted when the Council is planning and evidencing infrastructure future needs to be funded under the CIL charge.

#### Prospects for Improvement

- There is scope through the Single Communications Channel project to establish a single, clear and specific response to CIL Charging Authorities about the Council's total infrastructure need to offset the increased demand linked to developments.
- KCC has joined the Kent CIL Officer group email, which was recently established by Maidstone Borough Council as a forum to discuss CIL related issues.
- The underlying risk of disengagement by the CIL Charging Authorities remains a core issue

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- The Strategic Planning and Policy Team has the knowledge and expertise to work effectively in representing the Council's interests in the CIL charging processes.
- The Strategic Planning and Policy Team has district liaison meetings with representatives from three of the four CIL Charging Authorities to discuss Local Plans and major site applications.
- Regarding the fourth CIL Charging Authority, Dartford Borough Council, KCC has a representative on the Leader's Advisory Board, which monitors CIL income and funded infrastructure.
- There is understanding of the potential for funding gaps under CIL.

## Summary of Management Responses

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

## K2 Property Management System – Follow up

Audit Opinion	Adequate
Prospects for Improvement	Good

Our audit testing identified there are now up to date policies and procedures within Infrastructure Commissioning as well as Gen2. Accurate central records are now being developed for all assets, including tenant information for KCC owned properties. A data cleanse exercise has been completed whereby each record under the corporate landlord portfolio has been scrutinised for accuracy.

We found that significant steps have been made towards establishing robust reliable data and queries / errors from the data cleanse exercise completed by Gen2 have been reported and are being actively investigated.

The plans to bring together properties previously held within other Directorates rather than the corporate landlord are being progressed and is the next phase for the development programme and data cleanse. This is currently on schedule.

At the time of our follow up audit material legacy elements of the previous systems remain and the rectification plans are still 'works in progress'. Nevertheless, we consider management is doing the right things in the right way at the right time to rectify these shortfalls. From our review and associated

- From our testing of 30 assets we found rent and service charges invoices are accurate.
- Regular monthly meetings are held between Infrastructure Commissioning and GEN2 and the oversight of GEN2 in relation to property income now appears robust.
- A new system is in place for rent and lease reviews which triggers such reviews and renewals 18 months in advance.

## Areas for Development

- Legacy issues from previously defective systems remain - particularly in anomalies highlighted through the K2 data cleanse process which need to be resolved.
- Inaccuracies still exist in relation to properties held within other Directorates rather than the corporate landlord. These properties are not currently managed by Infrastructure who are gathering information and undertaking work to ensure that the information held on these properties is accurate and complete.

## Prospects for Improvement

- Management have fully supported the previous issues that have been raised and have implemented actions to rectify these.
- Appropriate resources have been utilised to improve the processes and controls around property income management.

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testing, it is evident that significant work is being carried out to address the issues. A positive is that those areas we have subjected to testing have resulted in positive outcomes

## Key Strengths

- There are now up to date policies and procedures within Infrastructure Commissioning and GEN2.
- Accurate central records are now being developed for all assets including tenant information re. KCC owned properties. A data cleanse exercise has been completed on the K2 system.

Our testing of 30 assets from the Corporate Landlord portfolio found no material issues, with relevant statements and lease agreements in place.

- Plans are in place to data cleanse the school estate and properties currently sitting within the Directorates – this is clearly still a significant challenge.

## 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	0	0	0

## Treasury Management

Audit Opinion	High
Prospects for Improvement	Good

There is a clear strategy and a strong framework of risk management and control. As a result, we found the Treasury Management activity to be well managed and controlled. Investments and borrowings had been made in line with the strategy and the Council is performing well when benchmarked with other local authorities. We have raised one minor issue to further enhance the overarching governance arrangements.

## Key Strengths

- There are appropriate governance and reporting arrangements in place to enable oversight and scrutiny of treasury management activities.
- There is a comprehensive Treasury Management Strategy with sufficient detail to provide a structure for borrowing and investment activity. It conforms to CIPFA and MHCLG guidance. Objectives are clearly set out and the strategy had been appropriately approved.
- Staff are qualified for the roles that they undertake and there are suitable arrangements in place to maintain and update skills.
- Information presented in committee reports is aligned to the source data.
- Key risks have been identified and are understood, with appropriate responses in place.

- Investment returns are monitored and reported, including benchmarking with other authorities. Benchmarking data shows that the Council is performing well in terms of return on investment.
- Reconciliations between Treasury Live and Oracle had taken place monthly and had been completed by the end of the following month.
- Cash flow forecasts are maintained and regularly reviewed.
- Appropriate Prudential Indicators had been set. and these are regularly monitored. Review of the indicators highlighted that as at the end of November 2018, performance was within the measures set for 2018/19.

## Areas for Development

- The respective roles of Cabinet and the Treasury Management Advisory Group are not completely clear as their remit as set out in Financial Regulations does not fully align to their functions in practice.

## Prospects for Improvement

- Comments made during the course of the audit have been accepted by management
- There is a culture within the team of commitment to performing well
- Previous audits of Treasury Management have received consistently substantial or high assurance
- The current systems, whilst robust, are heavily paper-based. It is likely that efficiencies and opportunities for staff to work more flexibly could be found if processes became more electronic.

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- There is segregation of duties within the Treasury Management team and between the Treasury Management team and wider Finance with many key controls enforced by the systems.
- System access is appropriately restricted and controlled (although please see comment below regarding Treasury Live).
- Policies and procedures are largely compliant with the CIPFA Code.
- All investments reviewed had been appropriately approved and were in line with the Council's Treasury Management Strategy. CHAPs payments had also been appropriately authorised.
- Interest costs are regularly monitored and are reported to Cabinet as part of the budget monitoring process.

## Summary of Management Responses

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

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## Cloud Navigation Phase II – Modern Workplace

Audit Opinion	Adequate
Prospects for Improvement	Good

The majority of Phase One work streams have been completed and Phase Two work has begun. The contract with Microsoft runs until March 2019 and although the bulk of the work will have been completed by this time, a one month contract extension is in the process of being agreed, at an additional cost. Whilst an overrun on a programme of this size is not uncommon, the departure of a third Programme Manager during the course of the work increases the risk of disruption. As a positive, the last Programme Manager implemented a number of governance procedures to ensure awareness and oversight of the technical aspects of the Programme as it progresses.

As previously identified by Internal Audit, there remains an issue regarding the transparency of the financial management of the Programme. Our first audit of the Programme governance in early 2017 identified a lack of budgets for resources, with further issues noted in early 2018 where approval and monitoring of costs were vague - specifically there was a lack of transparency relating to payments made to BSC (now Cantium).

We found that the completion dates for some individual work streams (OneDrive Office 365 Onboarding assistance) have been delayed. The impact of these delays on the Programme have not been assessed, nor has a dependency assessment been performed.

### Key Strengths

- The data migration procedures at KCC are well documented and tracked. All relevant stakeholders are informed on a timely basis regarding system downtime and their approval is sought to not have an impact on day-to-day business of the council.

Training manuals are being designed by KCC and Cantium Solutions for Phase 2 work streams. These will be delivered to the employees as soon as the work streams are complete and ready to use.

### Areas for Development

- There is a lack of transparency regarding the financial management of the Programme with KCC unable to evidence formal budget approvals and ongoing monitoring regarding the overall costs relating to the Programme.
- There has been movement of work streams between Phases without a dependency assessment being completed and payment for work streams have been made without the work being fully completed.
- A number of key project governance principles and practices had not been undertaken during the course of the programme to date.

### Prospects for Improvement

- The Programme is nearing completion and is due to finish by end of April 2019 against the original timeline of March 2019.
- The Programme is on its fourth programme manager, which brings challenges in consistency of approach and oversight.
- Despite the issues identified with the transparency of financial management, we believe the resources allocated to the programme are appropriate.

### Summary of Management Responses

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



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## Data Protection incl. GDPR

Audit Opinion	Adequate
Prospects for Improvement	Good

There has been good progression in embedding the changes required by GDPR within the organisation, given the resources available and size of the Council. However, it has not reached 'business as usual' yet – there is a project plan in place outlining the work that still needs to be completed.

### Key Strengths

- Work continues on the review of Records of Processing Activity (ROPA) to ensure that all services have completed them, and relevant privacy notices are in place. The next step will be to record where there are information sharing agreements in place against the ROPA.
- Awareness of what a data breach is and how to report them has been improved through additional training of Members and officers across the organisation.
- Where Data Protection Impact Assessments (DPIA) are produced these are robustly assessed within the Office of General Council. However, coverage of DPIA's is only partial due to mixed levels of understanding over the need for such screening.

### Areas for Development

- The reporting, monitoring and evidencing lessons learnt from data breaches needs to be improved. This is to ensure sufficient information is captured to understand the risk to the data subject, the investigation and closure of data breaches is done in a timely manner and that all actions/controls implemented to prevent further breaches are captured
  - Accurate records need to be held of data sharing and where an Information Sharing Agreement is required
- The reporting, monitoring and evidencing lessons learnt from data breaches needs to be improved to better understand the risk to the data subject, the investigation and closure of data breaches is done in a timely manner and the action taken to prevent further breaches.

### Areas for Development (cont)

- Sign-posting within project management and commissioning guidance needs updating to reflect the need to complete a DPIA screening tool.
- The exercise to ensure contracts are varied to take into account the changes of GDPR is still to be completed, there is also a need to establish how the Council will audit and inspect data processors compliance to GDPR.
- A number of low risk issues were also identified to enhance public facing and internal guidance, procedures and record

### Prospects for Improvement

- A cross directorate working group is in place to move the GDPR project forward and this reports to a new strategic GDPR group.
- The Office of General Council has expert officers who can advise KCC on data protection implications and impacts.
- Five of the seven issues raised in our 2017/18 GDPR audit have been addressed and action plans are in place for the remaining issues.
- Issues raised have been accepted and management action plans developed.

### Summary of Management Responses

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

### Summary of Issues from previous audit (Ref CA18-2018)

	Number of issues raised	Implemented and issues closed	Further actions agreed
Medium Risk	7	5	2

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## Data Security & Protection Toolkit Compliance Review

Audit Opinion	Substantial
Prospects for Improvement	Adequate

Overall, from our audit we have determined that there is an effective submission framework and organisational control for completion of the toolkit and the associated 'assertions'. Our testing of a sample of 10 assertions (and the 48 associated sub-assertions) was generally positive, although at the time of the audit there were still a number that had insufficient and / or incorrect evidence against them.

Management was confident that these would be completed by the 31/3/2019 deadline but there is clearly a risk in having such areas open or incomplete so close to the submission date. However, on 8 March 2019 a further briefing was issued by the NHS regarding arrangements for the submission. In this first year of the DSP Toolkit Standard, relevant bodies (including Local Authorities) will be allowed to publish a DSP Toolkit if they are approaching a level of 'Standards Met' in all but a few areas. They will be required to provide an Improvement plan of how they going to meet the DSP Toolkit standards. This effectively provides an extension of up to 6months to ensure all the mandatory assertions are met.

### Key Strengths

- The Council has established Corporate Information Governance Group (CIGG) and a Corporate Information Management Team, which replaced the Information Governance Steering Group. The CIGG meets on a regular basis, with the DSP Toolkit being a standing agenda item
- There is a robust toolkit submission framework, approved and authorised by the CIGG, which is supported by a detailed action plan, incorporating all the assertion required by the toolkit, assigned to appropriate departmental teams.
- The submission framework explains the agreed actions expected of named officers, functions, or services in respect of the annual submission of evidence to the NHS Digital.

### Key Strengths (cont)

- The Council has achieved Public Services Network (PSN) Connection Compliance Accreditation, which automatically demonstrates compliance with all technical IT security assertions in the DSP Toolkit.
- The 10 assertions tested in the audit contained 48 sub-assertions. The evidence provided for 41 of the 48 sub-assertions included in our sample was found to be satisfactory and in line with the requirements of the DSP Toolkit.

### Areas for Development

- There was insufficient evidence provided to support the completion of seven of the 48 sub-assertions included in our testing sample.

### Prospects for Improvement

- The Council started work on completing the DSP Toolkit self-assessment return several months ago and we noted that a large number of assertions have been appropriately completed.
- Insufficient evidence for a number of Toolkit assertions at a late stage appears to be a recurrent theme, carrying on from previous audits of the IG Toolkit.
- Further work was undertaken to address the gaps identified. In this first year of the new Toolkit Standard, relevant bodies will be allowed to publish a DSP Toolkit with an Improvement plan of how they going to meet the DSP Toolkit standards.
- A meeting has been arranged with all assertion owners to ensure lessons are learned and to start planning for the March 2020 Toolkit submission.

### 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	0	0	0



# Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

## Children's Data Quality (Liberi and EHM)

Audit Opinion	Substantial
Prospects for Improvement	Good

The audit evidenced that good data input validation controls are built into the systems and these prevent the entry of erroneous data. Rigorous processes are in place to identify, monitor and rectify any errors or incomplete data through the use of regularly produced data quality reports and dashboards. These processes allow operational teams to efficiently manage their own data ensuring that KPI's are a true reflection of practice. Clear accountability and access to regular monitoring reports demonstrates confidence in the accuracy and validity of the data which is used to support decision-making processes.

### Key Strengths

- Confidence in the accuracy of the data allows for a clear decision-making process and reliance can be placed on upward management reporting of the data.
- Directorate roles and responsibilities for managing data are defined in the Council's Data Quality Policy and included in relevant staff job descriptions.
- Clear system in place to identify, monitor and escalate data quality issues, with evidence of appropriate actions taken in line with agreed SLA's.
- There is sufficient management oversight of system data quality issues.
- Training requirements are robust with good controls in place to ensure training is appropriate to the role and access to systems only granted after completing the relevant training.

- Trend analysis of users input to the systems is completed regularly identifying any further staff training requirements or amendments to the system with evidence of management oversight.
- There are a comprehensive range of procedure notes and guidance documents available to help staff accurately enter data onto the system. (See also areas for development below)

### Areas for Development

- There are no checks carried out on system access rights to help identify any existing users who no longer need access following a change of role.
- Minor inconsistencies were identified in the EHM Issues Request Log and Liberi Data Quality Support Request Log.
- Procedure notes and guidance documents for users are not consistently version controlled. Some Liberi guidance documents require review.

### Prospects for Improvement

- There is robust governance, data validation, training and processes in place to monitor issues through to completion.
- Issue 2 (Record Keeping) has now been resolved.

### 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

# Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

## County Council Values and Behaviours (Final Draft stage)

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

The risk of a significant ethical / governance failure is being reasonably managed. It is evident that considerable investment has been made in order to ensure the Council behaves with integrity and embraces an ethical commitment enshrined in the 3 core values. This was independently tested not only through review of; policies and procedures but through staff surveys and interview of key stakeholders.

### Key Strengths

- It is apparent that the majority of councillors and officers demonstrated the need to maintain and display high standards of conduct.
- There is a strong officer cadre and Corporate Management Team with a robust but constructive relationship with Members.
- The proportion of opposition parties on Scrutiny and G&A Committee has been increased to enhance greater challenge.
- The General Counsel has a clear role as Monitoring Officer and champions ethical awareness and decision making.
- The status of the Corporate Director of Finance as statutory Section 151 officer and relevant financial reporting and internal audit arrangements are robust.
- The constitution is regularly reviewed and refreshed (most recently in July 2018 - addressing and defining the "Member led, not Member managed" culture)
- Guidance on Member / officer relationships has also been enhanced with informal governance arrangements and decision making now more formally documented,
- The Council has an integrated structure of policies and procedures that formally maintain values and behaviours. We found them fit for purpose.
- Equalities are re-enforced through the setup of a Corporate Equalities Group.
- Levels of Ombudsman's complaints are decreasing from 2017/18 and the proportion upheld (at 39%) is also reducing and is below the national average of 57%.

### Key Strengths (cont)

- A clear Complaints and Compliments policy is in place and the Council has invested in a new corporate complaint recording and managing system. Approximately one in four complaints are upheld, and cases we sampled had been investigated properly.
- The corporate staff survey was generally positive with three of the four topic areas centred around values and behaviours receiving positive scores of 70-80%.
- Annual declarations are requested from staff and Members are required to publicly declare interests and gifts and hospitality in line with legislation. Authenticity of declarations is periodically tested through national and local counter fraud data matching initiatives.
- Breaches of the code of conduct are low – of 48 reported staff breaches, 26 resulted in sanctions. The cases we sampled were skewed towards incidents around inappropriate data or information sharing.

### Areas for Development

- A considerable proportion of stakeholders could not identify or did not recognise the Council's declared values. This included Members we interviewed who were generally not aware of the Council's values or specific code of conduct
- There is very little formal preparation or induction for Members who are promoted to Cabinet level
- Unlike the officer's code of conduct, the Members code does not require Members to abide to KCC's values and there is no reference to equalities
- Induction, development and training programmes for Members, which includes links to ethics and standards, are not compulsory. Take up on induction and training for Members is currently 60%
- Several key Members and officers felt that the added value of Scrutiny is limited. This was evidenced by there being no examples of Cabinet requested to re-consider a decision
- The staff survey questions relating to leadership and management of change received a lower positive recognition rating of 48% with a further 29% of staff remaining "neutral" on the topic overall. As part of this set of questions, nearly 40% of respondents gave neither a positive or negative response to the question about Members setting a clear vision for the future of KCC,

# Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

## County Council Values and Behaviours

Page 2

### Areas for Development (cont)

- A concern from a significant minority of Members and officers interviewed was the setup of LATCO's and the perceived lack of transparency of their governance despite the potential financial and reputational impact on the County Council. In 2017/18 the Council / Head of Paid Service received no formal assurance or feedback from the Shareholder Board in relation to the annual governance statement and similarly only one of the three LATCO's provided an end year assurance statement to the Shareholder Board
- There are limited actions taken to ensure that contractors perform duties and activities on conformance with the Council's values
- Despite good awareness levels, actual whistleblowing incidents are very low and at the middle manager focus group (T200) over a third said they doubted that whistleblowing incidents would be dealt with seriously and confidentially
- Differences in responses to the staff survey and focus groups organised for the audit around challenging inappropriate behaviour in the workplace may point to different cultures existing across divisions or teams
- Equality Impact Assessments (EQIA's) were completed for all key decisions reviewed, however consistency and quality are variable with a view corporately that EQIA's are not always completed in relation to decisions made through informal governance processes
- Compared to induction controls for officers, there is little resource devoted to 'exit' interviews and understanding why staff leave the Council

### Prospects for Improvement

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

- Top level management fears the biggest risk to maintaining and monitoring checks and balances relating to values and behaviours across the Council is a reduction in staff capacity
- The Council has undertaken a pro-active review on the outcomes of the Northamptonshire CC inspectors report and has concluded that with one or two exceptions KCC compares favourably
- The Council is self-aware of the inherent risks
- The robustness of the Governance and Audit committee is being enhanced through several good practice measures, including the creation of an independent Member
- There is continual refreshment of the constitution in line with underlying risks
- Top level management are keen to promote feedback and challenge through forums such as the T200 grouping
- Top level management was open with staff over the results of the 2018 survey and gave prompt feedback

### Summary of Management Responses

	Number of issues raised	Management Action Plan developed	Risk Accepted and No Action Proposed
High Risk	1	TBC	TBC
Medium Risk	10	TBC	TBC
Low Risk	0		

# Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

## Property Statutory Compliance

Audit Opinion	Limited
Prospects for Improvement	Good

Overall, we found that the systems and controls to ensure statutory compliance on properties were insufficiently robust and are continuing to be developed. There are a number of key risks present, in particular a key deficiency from our testing was the inability of Gen2 to identify which properties are not covered by the TFM contracts. As such it would appear KCC's managing agent Gen2 is not actively tracking the compliance status of non-TFM properties and whether the council's responsibilities and liabilities are being met.

### Key Strengths

- KCC Infrastructure have a 'hands on' approach to monitoring compliance via regular dip testing, logging issues with Gen2 on the issues log, raising issues at the Operations meetings and attendance at H&S boards and other strategic forums where compliance issues are raised.
- There are regular meetings between KCC and Gen2 where performance is monitored. This is mirrored by performance reviews between Gen2 and TFM contractors.
- System improvements have been implemented in Gen2 to track statutory compliance work and any remedial action required.
- Policies and procedures have been produced and are available on KNET.
- Comprehensive contract documents are in place between KCC and with TFM contractors detailing the requirement for the performance of the property management function

### Areas for Development

- Work needs to be done to establish a shared, accurate log of properties not covered by the 3 TFM contracts (non TFM properties) and their compliance status.
- Resultant works arising from compliance certification checks and tests are not adequately monitored by Gen2 and there are delays in resolving these.

### Areas for Development (cont)

- Where KCC has let a property, we found that many tenants do not provide confirmation to KCC that statutory compliance checks have taken place.
- One policy was not version controlled and therefore may not be up to date. This policy falls under Health & Safety, not Infrastructure.
- Supporting procedural notes for statutory compliance are being drawn up by Gen2. However, these are not yet complete.

### Prospects for Improvement

- KCC Property Commissioning are aware of the compliance issues and are actively seeking resolution.
- Ad hoc systems developments are taking place to improve the data management of property statutory compliance, particularly concerned with resultant works.
- A project is in progress to bring non-Corporate landlord properties into Corporate Landlord and the TFM contract if relevant.
- Management and staff were receptive to the issues raised and have developed appropriate action plans.
- Minor areas for improvement to procedures were addressed during the audit as they were identified.
- The Property Commissioning team has been strengthened and additional support resources are being added to focus on Facilities Management.
- A review of FM provision has started as part of the wider review of the Gen2 agreement with KCC.

### 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	1	1	0
Low Risk	2	2	0

# Annex 1 – Summary of Individual 2018/19 Internal Audits Issued January – March 2019

## Adults LD Respite Services Themed Review

Audit Opinion	Substantial
Prospects for Improvement	Good

We can therefore provide Substantial assurance that both financial and non-financial controls are operating effectively.

Across the three Centres that were audited, 28 recommendations were raised:

- High priority 1 (4%)
- Medium priority 15 (53%)
- Low priority 12 (43%)

The high priority recommendation relates to staff training while the majority of medium priority relate to maintaining complete and accurate asset registers, health and safety controls and procurement of goods. There were also concerns over take up / utilisation of two of the centres we reviewed.

Overall this mirrors many of the findings from other establishment audits we have undertaken over the past few years.

### Key Strengths

- Building Security at all establishments is well managed to safeguard users.
- Expenditure approval was in line with KCC's scheme of delegation.
- Fire tests and drills are occurring on a frequent basis with any actions identified through drills recorded and acted upon.
- Accident reporting is well recorded, with actions being identified and implemented to prevent accidents recurring.
- DBS checks for staff are up to date.
- Personnel, financial and client files are stored securely and all storage cupboards and filing cabinets are locked when not in use.
- All complaints reviewed had been resolved appropriately and promptly.
- Each centre was clutter free and visibly clean.
- There is clear evidence that expenditure is for the benefit of service users.

### Areas for Development

- Review of the utilisation of the Respite Services found that there is a common issue surrounding the take up of the service, with only one of the four Centres (Southfields) achieving consistently high occupancy.
- Two of the Centres consistently overspend their budgets, although these overspends are being reduced each year.
- A theme surrounding health and safety was identified particularly around the need for prompt health and safety inspections.
- There were instances where training records were not maintained, and we found gaps in some mandatory and essential training.
- Maintaining complete and accurate asset registers.
- Two of the three Centres required more comprehensive recording within fuel records to mitigate against the risk of fraudulent fuel transactions.
- Two of the three Centres visited had procured non-contracted goods valued at between £1k and £50k, and therefore Indirect Procurement should have been consulted.

### 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.
- Similar issues re-occur within our establishment audits each year which does not reflect well on wider organisational learning.

### Summary of Management Responses

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

## Annex 2 – Internal Audit Judgement Definitions



### **High**

Internal control, Governance and the management of risk are at a high standard. The arrangements to secure governance, risk management and internal controls are extremely well designed and applied effectively.

Processes are robust and well-established. There is a sound system of control operating effectively and consistently applied to achieve service/system objectives.

There are examples of best practice. No significant weaknesses have been identified.



### **Substantial**

Internal Control, Governance and management of risk are sound overall. The arrangements to secure governance, risk management and internal controls are largely suitably designed and applied effectively.

Whilst there is a largely sound system of controls there are few matters requiring attention. These do not have a significant impact on residual risk exposure but need to be addressed within a reasonable timescale.



### **Adequate**

Internal control, Governance and management of risk is adequate overall however, there were areas of concern identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.

There are some significant matters that require management attention with moderate impact on residual risk exposure until resolved.



### **Limited**

Internal Control, Governance and the management of risk are inadequate and result in an unacceptable level of residual risk. Effective 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 there is a high risk that objectives are not achieved.



### **No Assurance**

Internal Control, Governance and management of risk is poor. For many risk areas there are significant gaps in the procedures and controls. Due to the absence of effective controls and procedures no reliance can be placed on their operation.

Immediate action is required to address the whole control framework before serious issues are realised in this area with high impact on residual risk exposure until resolved.

## Annex 2 – Internal Audit Judgement Definitions

### Prospects for Improvement

Very Good	There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.
Good	There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.
Adequate	Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives.
Uncertain	Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.





**By:** Robert Patterson – Head of Internal Audit

**To:** Governance and Audit Committee – 24<sup>th</sup> April 2019

**Subject:** **INTERNAL AUDIT AND COUNTER FRAUD PLAN 2019-20**

**Classification:** Unrestricted

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**Summary:** This report details the proposed Internal Audit and Counter Fraud Plan for 2019-20 as well as the Audit Charter and Anti-Fraud and Corruption Strategy, both of which underpin the plans and practice of the KCC audit team.

**Recommendation: FOR DECISION**

## **Introduction**

1. This paper sets out the proposed plan for 2019/20 detailing a breakdown of audit and counter fraud areas of work together with resources. It includes the Internal Audit Charter, a required document under Public Sector Internal Audit Standards that sets out our purpose, authority and responsibility and an updated definition of the assurance levels we provide. In addition, the Anti-Fraud and Corruption Strategy has been revised for 2019/20 following independent review and is included for the Committee's review and agreement.

## **Audit and Counter Fraud Plan for 2019/20**

2. As a reminder, the need for a plan is stipulated in the Public Sector Internal Audit Standards as well as being an obvious mechanism for planning and controlling the internal audit and counter fraud service.
3. The plan has been divided into 55 Priority 1 and 30 Priority 2 audits. The section will have a target to complete 90% of Priority 1 and not more than 20% of Priority 2 audits in the coming year dependent on resources. The latter provides the section with greater flexibility over lower priority audit coverage.
4. The outline plan detailing audits and activities is attached at Appendix A. This includes work providing assurance against core critical systems and corporate risks shown in graphical format against current corporate risks at Appendix B.
5. As per normal practice, the outcomes from the 2019/20 plan will provide:
  - Overall opinion and assurance to support the Annual Governance Statement and related governance 'health check'
  - Assurance against the mitigation of key corporate risks
  - Coverage of the critical systems of the Council
  - Integrated work around value for money and efficiency opportunities
  - Underpinning counter fraud processes and activity across the Council as well as resources for reactive work such as special investigations
  - On-going advice and information on controls to management

6. The plan has been developed through a risk-based planning process that has incorporated the following elements:
  - Discussions with Cabinet Members, Corporate Directors, Directors and key Heads of Service
  - Utilising audit cumulative knowledge and experience to map audit activity against the corporate risk register
  - Coverage necessary to provide an opinion on corporate governance which in turn contributes to the Head of Internal Audit's opinion as part of Annual Governance Statement
  - Work to provide assurance to the Corporate Director of Finance as Section 151 that controls are in place and operating effectively for a selection of key financial and contracting systems
  - Management requests for assurance on areas of concern
  - Previous cyclical audit work and the need for formal follow up
  - Facilitating pro – active fraud work
  - Integrating our work with other assurance providers across the Council ranging from commissioning to safeguarding
7. 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.
8. In addition to the core assurance work the 'big themes' for 2019/20 will be:
  - Top level governance review of the Strategic and Corporate Services Directorate, which may be aligned to a peer review by the LGA (this to be confirmed)
  - Review of the delivery of planned savings and strategic outcomes
  - Reviews of selected themes around the new commissioning arrangements
  - Follow-up of Special Educational Needs taking into account recent Ofsted findings
  - Children's safeguarding
  - Continued assurance relating to the delivery of GDPR compliance with a deep dive into a particular directorate
9. Excluded from Appendix A are detailed plans for:
  - Internal audit coverage of the KCC's current LATCos, more particularly Commercial Services, GEN2, Invicta Law, Cantium and The Education People where we are the appointed internal auditor
  - Income generating and shared service work with Tonbridge and Malling Borough Council, Mytime Active, Kent and Medway Fire and Rescue Service, Parish Councils and audits of selected grants. We have also gained work providing internal audit services for an increasing number of academies. As such for 2019/20 it is estimated that over a quarter of our 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
  - Audits in progress or planning from the 2018/19 Plan which will be completed early 2019/20

## **Resources, Priorities and Timing**

10. Overall, we have a total productive audit and counter fraud resource of approximately 2846 days. After deduction off work for arm's length LATCO's and independent organisations there is a minimum remaining dedicated resource of 1730 days for KCC assurance work (excluding any priority 2 work). In addition, this resource may be reduced further by any unplanned special audit investigations.
11. The approved net base budget for the unit for 2019/20 is £ 780,100 which is a 1.9% increase on the previous year. This is the spend solely dedicated to KCC work and assurance.

## **Internal Audit Charter**

12. It is a requirement of the Public Sector Internal Audit Standards (the Standards) that the purpose, authority and responsibility of Internal Audit is formally defined in an internal audit charter and that this be periodically reviewed and presented for approval to senior management and the Board (defined as the Audit Committee in the Local Government Application Note by Cipfa). The Charter has been reviewed and updated to ensure it remains fit for purpose to support delivery of the 2019/20 Plan and is compliant with the Standards; the revised version is attached at Appendix C.

## **Internal Audit Assurance Levels**

13. It is good practice to periodically review the way we define the assurance we provide to ensure this continues to meet the needs of the organisation. Our previous assurance definitions focussed very much on internal controls while the purpose of Internal Audit is to provide assurance on governance, risk and control. We have therefore updated the definitions to better reflect this and these can be found at Appendix D.

## **Anti-Fraud and Corruption Strategy**

14. In response to recommendations made as a result of the independently validated review of the Council's approach to countering fraud we have updated the Anti-Fraud and Corruption Strategy (attached at Appendix E). All amendments are shown via tracked changes which have also been shaded for ease of reference. In summary we have:
  - Include specific references to fraud/corruption threats affecting KCC and the harm they cause.
  - Stated how the Council will work with other organisations to tackle fraud.
  - Included a commitment to recover investigation costs whenever appropriate.
  - Clearly identifies the relevant posts and/or committees with significant responsibilities for fraud.
  - Included references to performance measurements and reporting requirements.
  - Made it clear that allegations of fraud 'must' be reported to the Head of Internal Audit.

- Included references to how internal controls will be used to prevent fraud
- Included details of how the council will publicise its counter fraud activity.
- In relation to sanctions, we are developing a stand-alone sanction policy and will need to consult with the General Counsel.

## **Conclusions**

15. Overall, we consider that the we have focused the available resource to provide maximum benefit to the County Council, particularly concentrating our work on assurance against the key risks and challenges that are being faced.

## **Recommendations**

16. Members are asked to:
  - Agree the proposed Internal Audit and Counter Fraud Plan for 2019/20, and
  - Approve the Internal Audit Charter and revised Internal Audit Assurance Levels
  - Agree the proposed changes to the Anti-Fraud and Corruption Strategy

## **Appendices**

***Appendix A - Internal audit and counter fraud plan and detailed resourcing***

***Appendix B – Graphical representation of 2019/20 planned audit activity against key corporate risks***

***Appendix C - Internal Audit Charter***

***Appendix D - Revised Internal Audit assurance definitions for 2019/20 audits***

***Appendix E – Anti-Fraud and Corruption Strategy***

**Samantha Buckland**

**Strategic Audit Manager**

**(03000 415899)**

# Kent County Council

Internal Audit and Counter Fraud Plan

April 2019 - March 2020

# 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 / Rationale	Lead Officer(s)
CA01 2020	Annual Governance Statement for 2018/19 Authority Wide	15	1	1	Annual assurance audit covering the processes and controls in place to produce the council's Annual Governance Statement for 2018/19.	David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i>  Ben Watts <i>General Counsel</i>  Denise Fitch <i>Democratic Services Manager</i>
CA02 2020	Corporate Governance Authority Wide	20	1	4	An annual review of corporate governance across the council, drawing information from the audit work completed in the 2019/20 year and other relevant outcomes, supplemented by additional focussed audit work, 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.	David Cockburn <i>Corporate Director Strategic &amp; Corporate Services</i>  Ben Watts <i>General Counsel</i>  Denise Fitch <i>Democratic Services Manager</i>
CA03 2020	Dept Governance - Strategic and Corporate Services Authority Wide	50	1	3	A high-level review of the effectiveness of governance arrangements for the Strategic and Corporate Services directorate. This is part on a rolling programme of governance audits across the council, now entering its fifth year. We will explore working with the LGA if appropriate.	David Cockburn <i>Head of Paid Service</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
CA04 2020	Risk Management - Themed report  Authority Wide	5	1	4	Annual audit of risk management in the Council to provide an assurance opinion on the adequacy and effectiveness of risk management across the Council. The approach will be to assess risk management in a number of the planned audits in the 2019/20 audit plan with themes pulled into an overall report at the end of the year.	David Cockburn <i>Head of Paid Service</i>  David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>  Mark Scrivener <i>Corporate Risk Manager</i>
CA05 2020	Information Governance - DPS Toolkit Authority Wide	15	1	4	An annual audit of the council's self-assessment of compliance with the NHS Data Protection and Security Toolkit. Reaching a satisfactory level of compliance with all aspects of the Toolkit is required for continued access to NHS data for ASCH and Public Health. This will include the specific requirement to audit Pseudonymisation arrangements following the planned change of specialist processor in April 19.  See also ICT01 2010 (Access Controls to Personal Data).	David Cockburn <i>Head of Paid Service</i>  Ben Watts <i>General Counsel</i>  David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>
CA06 2020	Data Protection - Deep Dive	20	1	1	This audit will be a deep dive of one directorate's processes and controls for managing compliance with the Data Protection Act 2018. This follows on from the DPA/ GDPR audit in 2018/19 which focussed on central arrangements and teams and will assess progress in embedding the requirements of the new DPA.	David Cockburn <i>Head of Paid Service</i>  Ben Watts <i>General Counsel</i>  Directorate contact TBC

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
CA07 2020	Data Protection and GDPR watching brief/ advisory work. Authority Wide	6	1	Ongoing	Watching brief/ advisory work through attendance and input to operational and strategic level groups.	David Cockburn <i>Head of Paid Service</i>  Ben Watts <i>General Counsel</i>  Caroline Dodge <i>Information Governance Manager</i>
CA08 2020	Business Planning Authority Wide	20	1	2	To provide assurance on the effectiveness of the new business planning arrangements introduced for 2019/20. We will also consider whether EQIAs are being competed at the appropriate time.	David Cockburn <i>Head of Paid Service</i>  David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>
CA09 2020	Strategic Commissioning	30	1	3	A review of the effectiveness of aspects of the Strategic Commissioning process. The specific focus of this audit will be confirmed during the planning phase but may include impact and effectiveness of Strategic Commissioning in managing the market; service user engagement/consultation; deep dive of specific contracts in line with work of Contract Management Review Group and voluntary sector contracts. See also audits of iProc and Indirect Procurement.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>
CA10 2020	Improving Outcomes and Achievement of savings Authority Wide	40	1	2	An authority wide review of how KCC is progressing with its strategic aim of better outcomes for Kent residents, against the backdrop of savings targets for key services. To include links to the MTFP process to highlight lessons learned.	David Cockburn <i>Head of Paid Service</i>  Zena Cooke <i>Corporate Director of Finance</i>  All Corporate Directors



Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
CA11 2020	LATCos - Client-side contract management, governance and impact of HoldCo	35	1	4	<p>A review of client-side contract management and governance of the Council's LATCOs following the introduction of HoldCo. Scope to be confirmed, but may include:</p> <ul style="list-style-type: none"> <li>• charging and cross-charging arrangements;</li> <li>• Governance;</li> <li>• consistency of offering and avoidance of detrimental competition; and</li> <li>• appointment and role of NEDs</li> </ul> <p>Approach may depend on HoldCo progress and could be phased over the year.</p>	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p> <p>Commissioning Directorates as appropriate</p>
CA12 2020	HoldCo – <i>Watching brief/ Advisory</i>	15	1	Ongoing	A watching brief/ advisory work over the HoldCo formation and the development of governance arrangements. Approach to be confirmed, but likely to include attendance and input to key HoldCo project meetings.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p>
CA13 2020	Records Management Authority Wide	20	2	3	A review of the records management processes across the Council to provide assurance that the Council is compliant with the Data Protection Act 2018. This builds on the planned DPA/GDPR watching brief audit (CA08 2020).	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Ben Watts <i>General Counsel</i></p> <p>Caroline Dodge <i>Information Governance Manager</i></p>
CA14 2020	Informal Governance Process	15	2	3 or 4	A review of the new informal governance process that is being prescribed within the Constitution.	<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 / Rationale	Lead Officer(s)
CA15 2020	Policy and legislative change Authority Wide	15	2	2	Audit of the arrangements in place to ensure that KCC responds appropriately and timely to legislative changes, providing guidance to the services impacted and updating policy as relevant.	David Cockburn <i>Head of Paid Service</i>  David Whittle <i>Director Strategy, Policy, Relationships and Corporate Assurance</i>  Ben Watts <i>General Counsel</i>
CA16 2020	Performance Management - Themed report Authority Wide	5	2	4	An audit of the processes and key controls in place to monitor and report on the Council's key performance indicators. Performance Management arrangements will be included in the scope of relevant individual audits during 2019/20 with themes pulled into an overall report at the end of the year.	David Cockburn <i>Head of Paid Service</i>  David Whittle <i>Director of Strategy, Policy, Relationships and Corporate Assurance</i>  Richard Fitzgerald <i>Business Intelligence Manager</i>

## 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 / Rationale	Lead Officer
CS01 2020	Social Care Client Billing	25	1	4	An audit to provide assurance over the adequacy and effectiveness of client billing arrangements for residential and non-residential care, following the implementation of MOSAIC in early 2019/20.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>
CS02 2020	Debt Recovery and write-off - Sundry debt  LATCO reliance - Cantium Business Solutions	20	1	1	An audit of the adequacy and effectiveness of measures undertaken by Cantium Business Solutions to recover sundry debt for the Council. To include debt write-off arrangements and controls.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>
CS03 2020	Family Placement Payments - foster care and adoption  LATCO reliance - Cantium Business Solutions	20	1	2	An audit of the adequacy and effectiveness of core payments to foster carers and adopters through the CONTROCC system, now that it has been in operation for 3-years.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>  Matt Dunkley <i>Corporate Director of Children, Young People and Education</i>
CS04 2020	Imprest Accounts  LATCO reliance - Cantium Business Solutions	15	1	1	Review of the use of and associated controls around the management of Imprest accounts to ensure that they are appropriately used.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer
CS05 2020	Schools financial Services – school compliance regime  LATCO reliance – The Education People	5	1	4	Annual audit of the system of school compliance visits to provide assurance over the adequacy of the system of schools' audit. This work will support the S151 Officer's certification of the Schools Financial Value Standard.	Zena Cooke <i>Corporate Director of Finance</i>
CS06 2020	Payroll processing  LATCO reliance - Cantium Business Solutions	20	2	3	To provide assurance that the payroll processes undertaken by Cantium Business Solutions continue to operate effectively. To include new starters, leavers and pay amendments.	Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i>  Lindsey Horne <i>Business and Client Relationships Manager</i>
CS07 2020	Non-residential care payments through Finestra  LATCO reliance - Cantium Business Solutions	25	2	3	A review covering the adequacy of processes and controls put in place over Finestra, the new system being brought in as part of the MOSAIC project to pay non-residential care providers.  This is one element of audit work planned for 2019/20 covering the new MOSAIC and Finestra systems (see RB26)	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>  Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
CS08 2020	Cashiers  LATCO reliance - Cantium Business Solutions	20	2	2	To review the adequacy and effectiveness of the cashier service provided by Cantium Business Solutions, as there is little automation around the processes. To include allocation funds received to the appropriate cost centres and invoices and management of workflows.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>

### 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 / Rationale	Lead Officer(s)
3.1 Strategic and Corporate Services						
RB01 2020	Leadership and Management Strategy	30	1	3	To provide assurance that the 5-year Leadership & Management strategy is aligned to the values of the organisation and that the impact of related management and staff development activity is being appropriately assessed and fed back to inform future initiatives.	Amanda Beer <i>Corporate Director of People and Communication</i>  Julie Cudmore <i>Head of Organisation Development</i>
RB02 2020	Kent Manager	15	1	2	A review of the impact of the revised Kent Manager scheme, introduced in Q1 2018/19. This is an element of the Leadership and Management Strategy and the findings will also feed into our opinion for audit RB01 2020.	Amanda Beer <i>Corporate Director of People and Communication</i>  Julie Cudmore <i>Head of Organisation Development</i>
RB03 2020	Customer feedback	20	1	2	Audit of arrangements to record and respond appropriately to customer feedback in line with the Customer Feedback Policy. This audit will focus on complaints handling and the use of customer feedback to shape service delivery.	Amanda Beer <i>Corporate Director of People and Communication</i>  Diane Trollope <i>Head of Engagement and Consultation</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB04 2020	Agylisis Contract Management	20	1	3	An audit of the adequacy and effectiveness of the arrangements to manage the Agilysys contract (providing contact centre and external communications services), including performance management through KPIs and the accuracy of payments made for contracted services.	Amanda Beer <i>Corporate Director of People and Communication</i>  Vincent Godfrey <i>Strategic Commissioner</i>  Christina Starte <i>Kent Communications Manager</i>
RB05 2020	Strategic Commissioning – i-Procurement	15	1	3	An audit of the adequacy and effectiveness of the arrangements in place to manage procurement through i-Proc. To include a review of how i-Proc is used for ordering and paying for temporary and contract staff through Connect2Kent.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>
RB06 2020	Strategic Commissioning - Indirect Procurement	10	1	3	An audit of the adequacy and effectiveness of the processes in place to manage the changes to the indirect procurement process.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>
RB07 2020	Finance (Pensions) - Kent Scheme admin.	15	1	2	An audit of the procedures and controls in place to manage pension administration, focusing on the accuracy of processing for new joiners and retirements.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>
RB08 2020	Public Health – Delivery of Statutory Services	25	1	3	Following the consultation on statutory services, an audit to provide assurance that Public Health can deliver service it is mandated to provide with a reducing financial envelope. To include a review of how the Public Health grant is managed and ring-fenced to be spent on appropriate services/ activities.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>  Andrew Scott-Clark <i>Director of Public Health</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB09 2020	Infrastructure - Property Statutory Compliance Follow-up  LATCO reliance – Gen2	20	1	3	Follow-up audit of KCC's arrangements to ensure all of its properties meet required standards (2018/19 audit opinion was Limited). This will include arrangements made to assess and address the compliance of properties transferred in to the Corporate Landlord during 2018/19.	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Nicholas Roberts <i>Head of Property Strategy and Commissioning</i>
RB10 2020	Infrastructure - Property Consultants	15	1	2 / 3	To provide assurance that the controls around appointing property/building consultants and managing consultancy contracts are effective. The outcome of this audit may inform the procurement of the new framework contracts.	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Nicholas Roberts <i>Head of Property Strategy and Commissioning</i>
RB11 2020	Finance External Funding - LOCASE2 Grant  <i>Advisory work</i>	10	1	3	Advisory work on controls and procedures set up for the planned LOCASE2 Grant, building on lessons learned from work carried out in 2018/19 on the LOCASE grant systems.	Zena Cooke <i>Corporate Director of Finance</i>  Cath Head <i>Head of Finance (Operations)</i>
RB12 2020	Health and Wellbeing strategy	15	2	2	Following the increased focus on staff wellbeing over the last year, a review of the uptake of support and the impact this is having. This will include a review of the working group formed to bring all strands of Wellbeing strategy together.	Amanda Beer <i>Corporate Director of People and Communication</i>  Paul Royel <i>Head of HR and OD</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB13 2020	Public Health Clinical Professional Development	15	2	3	To provide assurance on compliance with the requirements of 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, 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>  Andrew Scott-Clark <i>Director of Public Health</i>
RB14 2020	Public Health Suicide Prevention Plans	15	2	2	To provide assurance on the adequacy of suicide prevention activity, to provide assurance that services are equitable, of high quality and easy to access.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>  Andrew Scott-Clark <i>Director of Public Health</i>
RB15 2020	Public Health Breast Feeding Support	15	2	3	To provide assurance on the processes in place for breast feeding transformation, to establish whether lessons can be learnt.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>  Andrew Scott-Clark <i>Director of Public Health</i>
RB16 2020	Public Health Family Drug and Alcohol Court	15	2	3	To provide assurance on the adequacy and effectiveness of the controls in place to manage the family drug and alcohol court, including an assessment of achievement of its aims and outcomes.	David Cockburn <i>Head of Paid Service</i>  Vincent Godfrey <i>Strategic Commissioner</i>  Andrew Scott-Clark <i>Director of Public Health</i>



Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB17 2020	TFM Variable Spend	20	2	2	To provide assurance that the rectification measures put in place to manage the engagement between KCC, Gen <sup>2</sup> , and the TFM providers are effective, and the controls around variable (non-core) spend in the TFM contracts are functioning correctly.	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Nicholas Roberts <i>Head of Property Strategy and Commissioning</i>
RB18 2020	Asbestos Management	15	2	2	A deep dive review of the effectiveness of controls in place for Asbestos management across the Council's estate, in line with the Asbestos Policy and Procedures.	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Nicholas Roberts <i>Head of Property Strategy and Commissioning</i>
RB19 2020	Property Disposals/ Holding decisions	10	2	2	Review of decision making processes in place for vacant properties regarding when to dispose of them and the impact of the costs of holding empty properties.	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 / Rationale	Lead Officer(s)
3.2 Adult Social Care and Health						
RB20 2020	KMPT Transformation	20	1	3	To provide assurance post-implementation of the revised section 75 agreement and bringing staff back into KCC from NHS. This follows on from consultancy work undertaken in 2018/19.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB21 2020	Complaints Process and Outcomes <i>Partly Advisory</i>	25	1	1 & 4	Review of ASC Complaints process and outcomes. This work will be split as follows: - consultancy/ advisory work on the set-up of the ASC complaints process (schedule to be launched in June 2019) - assurance work on the new processes once they have been operating for approx. 6 months.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB22 2020	Home Care - Post New Contract	25	1	4	An audit of the Home Care contract management arrangements and assessment of whether the anticipated benefits of the newly let contract have been realised The care at home contract is currently being re-let and this audit will provide assurance on contract management and benefit realisation once the new contract is in place.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>  Vincent Godfrey <i>Strategic Commissioner</i>
RB23 2020	Mosaic & Finestra - Post Implementation Review	35	1	4	A review to provide assurance that the new systems, once in place and embedded, are fit for purpose and meet business need. This will include  This is one element of audit work planned for 2019/20 covering the new MOSAIC and Finestra systems (see CS08 2020)	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB24 2020	Front Door including Service User Experience <i>Partly Advisory</i>	25	1	4	Review of the new Client Support Service and integrated triage approach with focus on quality of service/pathway. This work will be split as follows: - consultancy/ advisory work during the set-up - assurance work once new processes are embedded to give assurance on achievement of outcomes/ benefit realisation, including use of secret shopper feedback.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB25 2020	DoLs – Progress with Addressing Backlog	20	1	4	Assurance on progress in addressing the backlog of DoLs assessments following changes to the process due to recent case law and restructure of SG/QA.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB26 2020	Quality of Adult Social Care	20	2	3 or 4	Review against the new ASC Quality Assurance Framework once finalised in early 2019/20. The timing and scope will depend on the CQC agenda and development of the Quality Assurance Framework.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB27 2020	Sensory & Autism Service Redesign <i>Watching brief/ Advisory</i>	10	2	Ongoing	Watching brief/ advisory engagement with the Sensory & Autism Service, providing audit input as the project progresses.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB28 2020	Voluntary Sector Contracts	10	2	2	An assessment of the set-up and controls over the on-going monitoring / management of Voluntary Sector Contracts entered into to deliver ASC services. To include an assessment of how VSCs support the ASC strategy.	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>
RB29 2020	Safeguarding/Case File Audit	20	2	TBC	Likely to be undertaken in 2020/21 following embedding of restructure and outcomes of externally commissioned case file audits	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB30 2020	Self-neglect	15	2	TBC	Likely to be undertaken in 2020/21 – this was recognised as an area for development therefore new policy and procedures, practice guidance and multi-agency approach is being implemented. The review will be undertaken once embedded	Penny Southern <i>Corporate Director of Adult Social Care and Health</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
3.3 Children, Young People and Education						
RB31 2020	SEND Follow-up	20	1	2	<p>Follow-up of 2018/19 SEND audit which received a 'Limited' assurance opinion. The audit will focus on the issues raised and progress in implementing service action plan.</p> <p>Consideration will also be given to the findings of Ofsted's recent review and the scope will be defined accordingly.</p>	<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 2020	Change for Kent Children	30	1	3	<p>A review of the overarching Change for Kent Children programme with deep-dive into key areas such as:</p> <ul style="list-style-type: none"><li>- Integration of Early Help and SCS; and</li><li>- Adolescent Risk.</li></ul>	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Stuart Collins <i>Director Integrated Children's Services (West) and Early Help Lead</i></p> <p>Sarah Hammond <i>Director Integrated Children's Services (East) and Social Care Lead</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB33 2020	Youth Justice	20	1	2	Assurance review of the Youth Justice service following the consultancy work completed in 2018/19. Audit scope to be confirmed but may include focus on out of court disposals.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Stuart Collins <i>Director Integrated Children's Services (West) and Early Help Lead</i></p>
RB34 2020	Foster Care	25	1	1	Audit of an aspect of the Foster Care service following on from the 2018/19 review of the Independent Foster Placement process and contracts. Scope to be confirmed during the detailed audit planning phase.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Director Integrated Children's Services (East) and Social Care Lead</i></p>
RB35 2020	Care Leavers	25	1	2	To provide assurance on compliance with new duties from the Children and Social Care Act and Homelessness Reduction Act 2017. To include review of controls over payments under the revised offer to care leavers and arrangements for UASC care leavers.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Sarah Hammond <i>Director Integrated Children's Services (East) and Social Care Lead</i></p>
RB36 2020	Safeguarding Children	25	1	3	Following advisory work undertaken in 2018/19 on the current Safeguarding Quality Assurance processes this review will provide assurance on the revised QA Framework and case file audit process. Further areas of scope could be included in line with changes from Children and Social Care Act and the Wood report including changes to the Local Safeguarding Children Board.	<p>Matt Dunkley <i>Corporate Director of Children, Young People and Education</i></p> <p>Stuart Collins <i>Director Integrated Children's Services (West) and Early Help Lead</i></p> <p>Sarah Hammond <i>Director Integrated Children's Services (East) and Social Care Lead</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB37 2020	School Themed Review	40	1	Ongoing	Part of a programme of themed reviews of schools, now in its 4 <sup>th</sup> year. The audit this year will focus on Business Continuity Planning, with evidence drawn from a sample of 20 maintained schools.	Matt Dunkley <i>Corporate Director of Children, Young People and Education</i>  Keith Abbott <i>Director of Education, Planning and Access</i>
RB38 2020	Adoption	20	2	3	An audit of the adoption service, scope to be confirmed but likely to cover implementation of the Regional Adoption Agency the controls in operation over the placement of children with adoptive parents and support provided both before and after placement. This will build on consultancy work undertaken in previous years.	Matt Dunkley <i>Corporate Director of Children, Young People and Education</i>  Sarah Hammond <i>Director Integrated Children's Services (East) and Social Care Lead</i>
RB39 2020	Troubled Families	10	2	3	The requirement for this audit, which provides assurance that KCC meet the conditions of the Memorandum of Understanding that supports Earned Autonomy, will be based on whether Troubled Families funding continues into 2019/20.	Matt Dunkley <i>Corporate Director of Children, Young People and Education</i>  Stuart Collins <i>Director Integrated Children's Services (West) and Early Help Lead</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
3.4 Growth, Environment and Transport						
RB40 2020	Business Continuity Planning, Incident Management	15	1	3	A review of the adequacy and effectiveness of KCC's approach to emergency planning, including the new command model and recovery roles following a major incident.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Katie Stewart/Stephanie Holt-Castle (Interim) <i>Director Environment, Planning and Enforcement</i>
RB41 2020	Carbon Reduction Commitment Annual Return for KCC  LATCO reliance – Commercial Services (LUMINA)	5	1	2	An annual audit requirement for the Carbon Reduction Commitment (CRC) return, this will 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 &amp; Transport</i>  Katie Stewart/Stephanie Holt-Castle (Interim) <i>Director Environment, Planning and Enforcement</i>
RB42 2020	Gypsy and Traveller Service	20	1	4	A review of the adequacy and effectiveness of processes and controls within the Gypsy & Traveller service, including the implementation of the new Pitch Allocation and Site Management Policy.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Stephanie Holt-Castle <i>Interim Director Environment, Planning and Enforcement</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB43 2020	Health and Safety Deep Dive	20	1	1	A deep dive review of the adequacy and effectiveness of Health and Safety controls within HTW, including capturing incidents (including near misses) and lessons learnt to ensure the ongoing safe operation of the service.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Simon Jones <i>Director of Highways, Transportation and Waste</i></p> <p>Amanda Beer <i>Corporate Director Engagement, Organisation Design &amp; Development</i></p> <p>Flavio Walker <i>Head of Health and Safety</i></p>
RB44 2020	Highways Term Maintenance contract re-let <i>Watching brief/ advisory</i>	12	1	Ongoing	A watching brief/ advisory engagement with the development of the Highways Term Maintenance contract re-let during 2019/20.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Simon Jones <i>Director of Highways, Transportation and Waste</i></p>
RB45 2020	Non-domestic Waste charging	20	1	4	A review of the implementation of charging residents for taking non-domestic waste to domestic waste sites. To include consideration of the results of consultation, controls in place over collection of fees/ charges and reporting of outcomes.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Simon Jones <i>Director of Highways, Transportation and Waste</i></p>
RB46 2020	Developer Contributions (CIL) Follow-up	10	1	3	A follow-up on the actions raised from the 2018/19 Developer Contributions (CIL) Audit, including KCC's work with District Councils to obtain and monitor CIL monies from developers.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>David Smith <i>Director of Economic Development</i></p>



Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB47 2020	Business Continuity Planning - Kent Resilience Team	10	1	3	<p>A review of the partnership to ensure objectives have been met, value for money obtained and that key risks and issues are being effectively managed.</p> <p>This audit will be joint with the Kent Fire and Rescue Service.</p>	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Katie Stewart/Stephanie Holt-Castle (Interim) <i>Director Environment, Planning and Enforcement</i></p>
RB48 2020	Companies in which KCC has a substantial interest/ investment	15	1	1	High level review of governance arrangements over these companies in which KCC has a substantial interest/ investment including Locate in Kent, Visit Kent and Produced in Kent.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>David Smith <i>Director of Economic Development</i></p>
RB49 2020	Pre-planning Advice	10	2	2	To provide assurance over the arrangements for the newly introduced charges for pre-planning advice, including a review of take-up, impact on subsequent applications and income collection/ budget management.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>Katie Stewart/Stephanie Holt-Castle (Interim) <i>Director Environment, Planning and Enforcement</i></p>
RB50 2020	Libraries - Finance Procedures in Libraries <i>Advisory Review</i>	10	2	1	Advisory work with the Libraries Service to support changes in finance procedures operated by Libraries.	<p>Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i></p> <p>James Pearson <i>Head of Libraries, Registration and Archives</i></p>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB51 2020	Joint Transportation Boards	20	2	3	A review of the Joint Transport Boards, including Governance arrangements, how KCC responds to recommendations, and evidences decision making.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Simon Jones <i>Director of Highways, Transportation and Waste</i>
RB52 2020	Speed Awareness	10	2	4	A review of revised processes and controls over Speed Awareness following the implementation of the new nationwide IT system.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Simon Jones <i>Director of Highways, Transportation and Waste</i>
RB53 2020	Highways Code of Practice	20	2	4	A review of actions taken to respond to the new 'Well Managed Highways Infrastructure' Code of Practice which came into force in October 2018.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Simon Jones <i>Director of Highways, Transportation and Waste</i>
RB54 2020	Young Persons Travel Pass	15	2	3	A review of controls over the collection of charges for YTPP following the introduction of a new monthly DD payment scheme. Audit will include a review of procedures in place to take appropriate action if payments are cancelled, whilst ensuring that the safety of young travellers is not put at risk.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  Simon Jones <i>Director of Highways, Transportation and Waste</i>
RB55 2020	Kent and Medway Business Fund	15	2	2	An audit to provide assurance over the procedures for assessment of applications to the Kent and Medway Business fund. To include workflow/ pipeline monitoring to address work peaks and pressures.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  David Smith <i>Director of Economic Development</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Lead Officer(s)
RB56 2020	Economic Development - Grant Schemes	10	2	3	A high level review of ED grant schemes with focus on controls in place to ensure that the grants are spent in line with the approved application and that matched funding conditions are met where appropriate. Village Grants have been identified as an example.	Barbara Cooper <i>Corporate Director Growth, Environment &amp; Transport</i>  David Smith <i>Director of Economic Development</i>

## 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 / Rationale	Corporate Director & Lead Officer
ICT01 2020	Access Controls to Personal Data	5	1	2	An annual review of access controls to personal data is recommended by the ICO and will support work carried out for the DSP Toolkit (see CA05 2020).	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Kathy Stevens <i>Interim Head of Technology Strategy and Commissioning</i>
ICT02 2020	Wireless Network Security and Capacity	25	1	3	Review of the arrangements for monitoring and developing of wireless access points and network capacity to support business needs and the strategy of KCC as staff increasingly work at different locations/ remotely. In addition, an assessment of the security of the wireless network, including 'bleeding out' from our buildings and actions taken to address this issue.	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Kathy Stevens <i>Interim Head of Technology Strategy and Commissioning</i>
ICT03 2020	Software Licensing	20	1	2	This audit will review the arrangements that are in place for managing the Council's compliance with its software licensing obligations.	David Cockburn <i>Head of Paid Service</i>  Rebecca Spore <i>Director of Infrastructure</i>  Kathy Stevens <i>Interim Head of Technology Strategy and Commissioning</i>

Ref.	Audit Title	Days	Priority	Indicative Quarter	Audit Details	
					Outline Scope / Rationale	Corporate Director & Lead Officer
ICT04 2020	ICT Change – Project Benefits Realisation	25	1	3	An audit to provide assurance that the planned outcomes from major ICT projects have been achieved and to consider whether there are effective means to track whether the anticipated benefits have been realised.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Kathy Stevens <i>Interim Head of Technology Strategy and Commissioning</i></p>
ICT05 2020	Members ICT	15	1	2	An assessment of the adequacy of Members ICT hardware and software, including its functionality and security.	<p>David Cockburn <i>Head of Paid Service</i></p> <p>Rebecca Spore <i>Director of Infrastructure</i></p> <p>Kathy Stevens <i>Interim Head of Technology Strategy and Commissioning</i></p>

## 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 / Rationale	Audit Details
						Corporate Director & Lead officer
Anti-fraud work – to raise awareness						
CF01 2020	Fraud Awareness / Detection and Prevention  Authority Wide	10	1	Ongoing	Plan and deliver a fraud awareness campaign in 2019/20 that is supported by the leadership team and includes both internal and external communications. The latter should raise awareness across clients and customers and include ‘good news’ stories such as successful prosecution or fraud prevention activity.	Zena Cooke <i>Corporate Director of Finance</i>
Fraud prevention work – to remove weaknesses that could be exploited						
CF02 2020	National Fraud Initiative (NFI)  Authority Wide	20	1	2	Coordinate the Council's and its LATCO's participation in the National Fraud Initiative.	Zena Cooke <i>Corporate Director of Finance</i>
CF03 2020	Kent Intelligence Network (KIN)  Authority Wide	20	1	Ongoing	Actively participate in the Kent Intelligence Network and develop data matching proposals to increase detection of fraud at KCC and across Kent authorities.	Zena Cooke <i>Corporate Director of Finance</i>
CF04 2020	Independent Review of Fraud Service  Authority Wide	10	1	1	Actions to address areas for development arising from the independent review of fraud carried out in Q4 2018/19.	Zena Cooke <i>Corporate Director of Finance</i>
CF05 2020	Proactive Fraud Exercise  Authority Wide	10	1	3	Coordinate a pilot exercise working with HMRC and the Cabinet Office (using the Digital Economy Act 2017) to identify fraud and error in Social Care Financial Assessments.	Zena Cooke <i>Corporate Director of Finance</i>

Ref.	Audit	Days	Priority	Indicative Qtr	Outline Scope / Rationale	Audit Details
						Corporate Director & Lead officer
CF06 2020	Investigations Authority Wide	450	1	Ongoing	The investigation of allegations of fraud and irregularity.	Zena Cooke <i>Corporate Director of Finance</i>

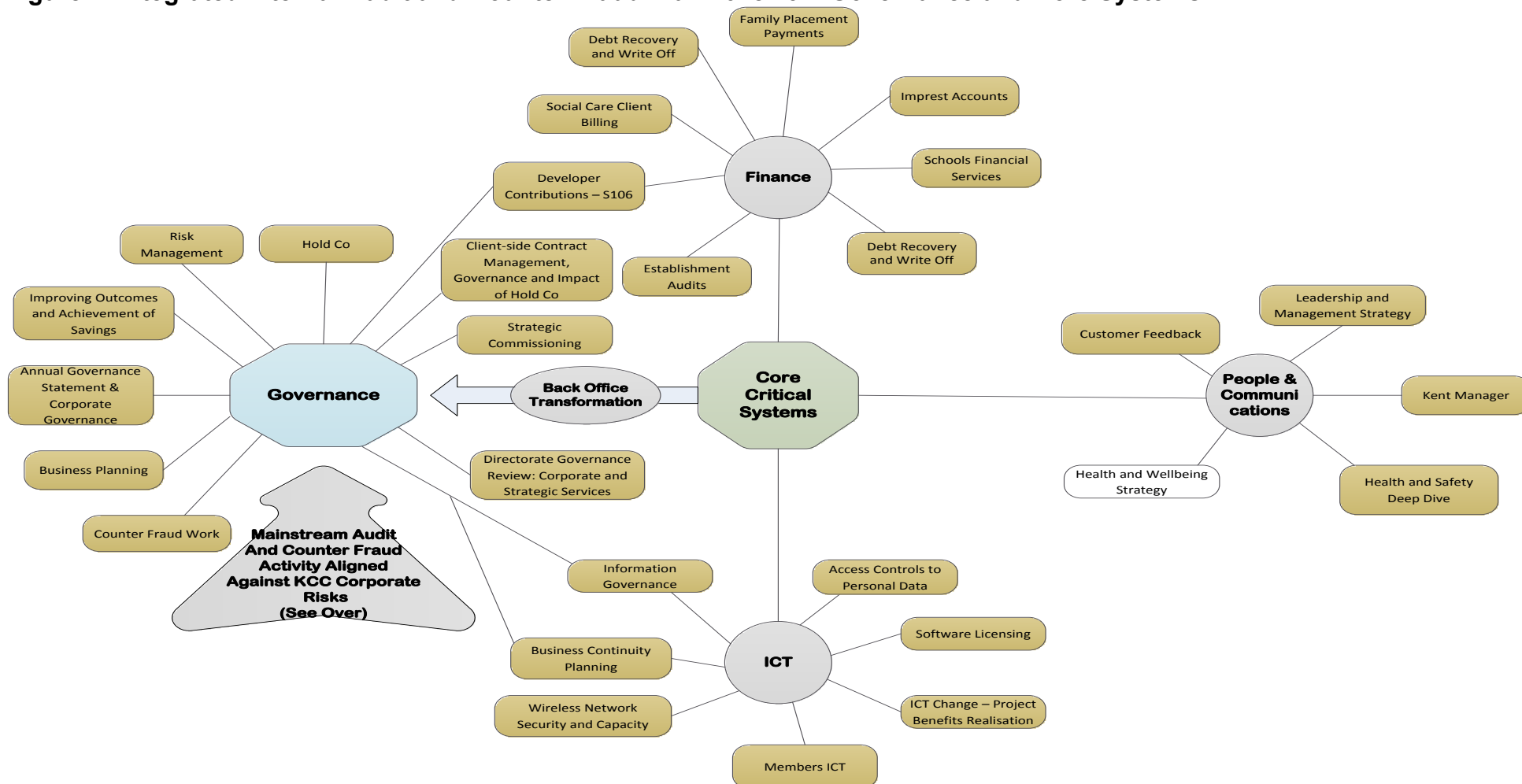
**N.B. The table above includes priority 2 audits, due to resource pressures we will aim to deliver a maximum of 20% of these audits**

## 6. Summary

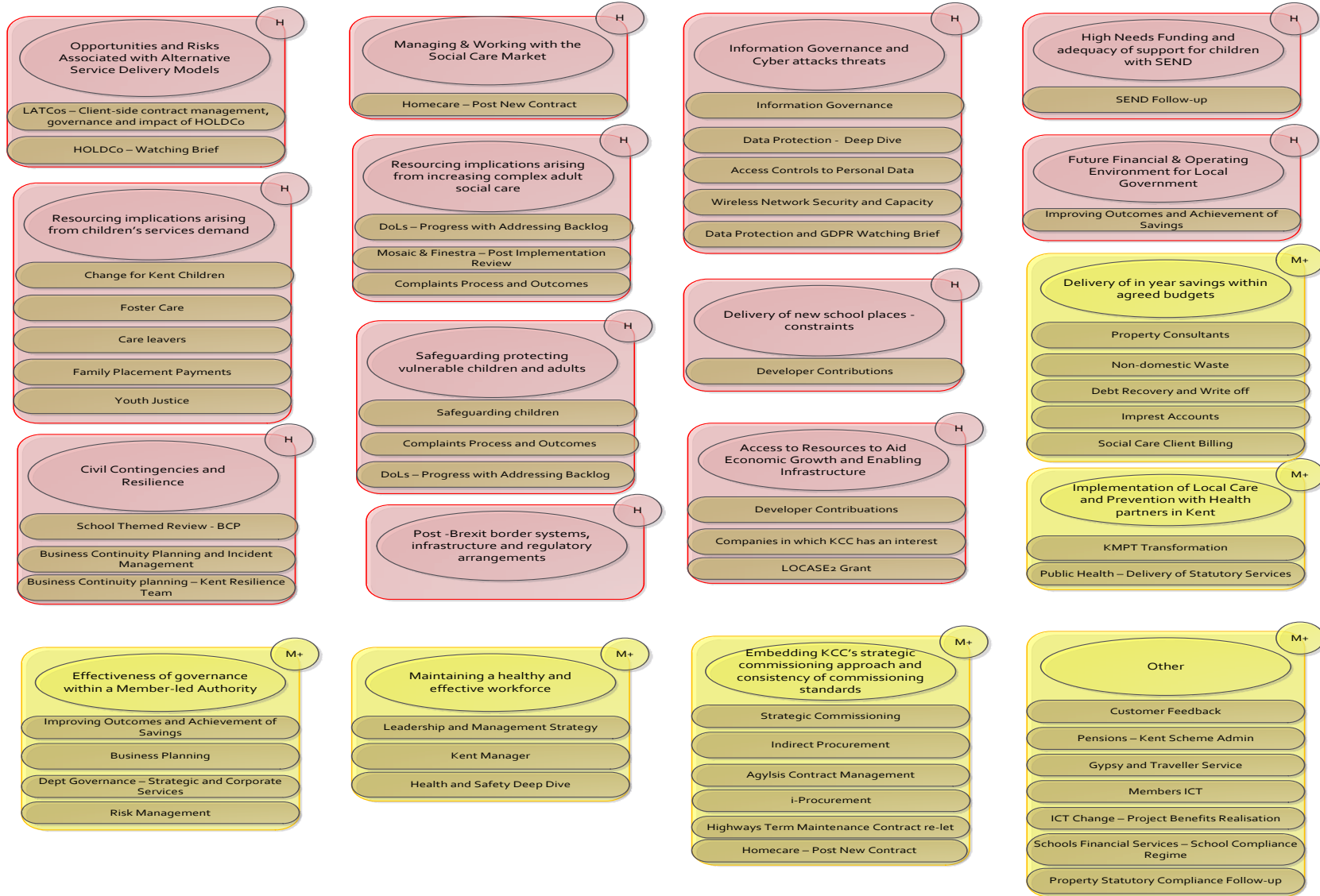
Audit	Priority 1 Days	Priority 2 Days
KCC Core Assurance	271	50
KCC Core Financial Assurance	85	65
KCC Risk Based Audits	662	380
KCC IT Audit Plan	90	0
KCC Proactive and Reactive Counter fraud work	520	N/a
KCC Follow up of issues with high/medium priority rating	50	N/a
KCC Liaison, advice and information and support for system/service development	100	N/a
Commercial Activities and other external provision		
- Cabinet Office	24	0
- Establishments	40	30
- Commercial Services (incl. Joint Venture)	233	0
- Gen2 Property	50	0
- Invicta Law	50	0
- The Education People	89	0
- Cantium	100	0
- Parishes	50	0
- Kent and Medway Fire & Rescue Authority	95	0
- Tonbridge and Malling District Council – Management of Audit and Fraud	130	0
- Grant claims other Certifications	215	0
- Schools and Academies	30	0
- My Time Active	30	0
- Other (Kent Foundation, Help Fund, Fisheries)	20	0
<b>Total Days</b>	<b>2934</b>	<b>525</b>



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)**



# KENT COUNTY COUNCIL

## Internal Audit Charter

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### 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. 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.

### STATUS OF INTERNAL AUDIT WITHIN THE ORGANISATION

The Head of Internal Audit and Counter Fraud (Head of IA&CF) reports directly to the Corporate Director of Finance and quarterly to the Governance and Audit Committee; meeting regularly with the Chair on a one to one basis. The Head of A&CF 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 and Fraud Plan (the Plan).

The Chair of the Audit Committee will be a member of any panel meeting to appoint or terminate the Head of IA&CF.

### 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 agreed actions in relation to issues raised by audit or to accept the risks resulting from not

acting. 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 timely.

## **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. This will include ensuring that where an audit is undertaken of an area where the Head of IA&CF has operational responsibility appropriate measures are put in place to avoid compromising independence. In the case of the Counter Fraud Service this will be achieved through a tri-authority peer review; the first of these was undertaken in March 2019.

The Head of IA&CF will have free and unrestricted access and freedom to report in his/her own name to the Corporate Director of Finance, Head of Paid Service and Chair 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 Plans. The 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 actions agreed in relation to issues raised 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;
- Promoting and raising 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 IA&CF 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 and Counter Fraud do not have to investigate all cases of potential frauds and irregularities; however, they must all be reported to the Head of IA&CF 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**

The Plan is developed annually and takes into account the work that is needed to enable the Head of IA&CF 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 IA&CF 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 IA&CF 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, 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 IA&CF 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 IA&CF 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; this was last undertaken in 2016. The Head of IA&CF will review the Charter annually and attach a revised document to the annual Plan.

## **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.

## **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME**

The Head of IA&CF 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 IA&CF will communicate to the Corporate Director of Finance 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 and Counter Fraud

Chairman of the Governance and Audit Committee

## VERSION CONTROL

Document Owner: Robert Patterson, Head of Internal Audit and Counter Fraud.

Version	Reviewed/Due for Review	Reviewer	Approver	Date approved
<b>Original</b>				
<b>2</b>	<b>23 February 15</b>	<b>Head of Internal Audit</b>	<b>Governance and Audit Committee</b>	
<b>3</b>	<b>April 2016</b>	<b>Head of Internal Audit</b>	<b>Governance and Audit Committee</b>	
<b>4</b>	<b>March 2019</b>	<b>Strategic Audit Manager</b>		

### Internal Audit Assurance Definitions



#### High

Internal control, Governance and the management of risk are at a high standard. The arrangements to secure governance, risk management and internal controls are extremely well designed and applied effectively.

Processes are robust and well-established. There is a sound system of control operating effectively and consistently applied to achieve service/system objectives.

There are examples of best practice. No significant weaknesses have been identified.



#### Substantial

Internal Control, Governance and management of risk are sound overall. The arrangements to secure governance, risk management and internal controls are largely suitably designed and applied effectively.

Whilst there is a largely sound system of controls there are few matters requiring attention. These do not have a significant impact on residual risk exposure but need to be addressed within a reasonable timescale.



#### Adequate

Internal control, Governance and management of risk is adequate overall however, there were areas of concern identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.

There are some significant matters that require management attention with moderate impact on residual risk exposure until resolved.



#### Limited

Internal Control, Governance and the management of risk are inadequate and result in an unacceptable level of residual risk. Effective 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 there is a high risk that objectives will not be achieved.



#### No Assurance

Internal Control, Governance and management of risk is poor. For many risk areas there are significant gaps in the procedures and controls. Due to the absence of effective controls and procedures no reliance can be placed on their operation.

Immediate action is required to address the whole control framework before serious issues are realised in this area with high impact on residual risk exposure until resolved.



# Anti-Fraud and Corruption Strategy

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<b>Version</b>	Version 7

## Document Review History

Version	Reviewed	Reviewer	Approver	Date approved
Original				
2	30 June 2013	Internal Audit	Governance & Audit Committee	24 July 2013
3	25 June 2014	Internal Audit	Governance & Audit Committee	24 July 2014
4	11 Sept 2015	Internal Audit	Governance & Audit Committee	2 Oct 2015
5	July 2016	Internal Audit	Governance & Audit Committee	6 Oct 2016
6	5 Sep 2018	Internal Audit	Governance & Audit Committee	24 October 2018
7	29 March 2019	Internal Audit	Governance & Audit Committee	

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## A. Policy Statement

1. Fraud against Local Government is estimated to cost £7.3<sup>1</sup> billion per year. This is a significant loss to the public purse. To reduce these losses Kent County Council is committed to:
  - The highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets.
  - The prevention of fraud and the promotion of an anti-fraud culture.
  - A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
  - The investigation of a risk-based response to all instances of actual, attempted or suspected fraud. The Council will seek to recover any losses and pursue appropriate sanctions against the perpetrators. This may include criminal prosecution, disciplinary action, legal proceedings and professional sanctions.
  - The Local Government Fraud Strategy: Fighting Fraud Locally which means the Council will:
    - Acknowledge the threat of fraud and the opportunities for savings that exist.
    - Prevent and detect all forms of fraud.
    - Pursue appropriate sanctions and recover any losses.

### Definition of Fraud

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

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<sup>1</sup> University of Portsmouth (2016) Annual fraud indicator 2016

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

### **Definition of Corruption**

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

### **Current Threats and their Impact**

5. KCC faces a range of fraud and corruption threats and the impact can be significant causing financial loss, reputational damage and harm to service users and the residents of Kent. In the last 12 months the most frequent types of fraud and similar crimes that have impacted on KCC are as follows:
  - Blue Badge Fraud. This type of fraud causes a financial loss to the wider Kent economy, undermines the public's confidence in the Blue Badge scheme and prevents genuine Blue Badge users from accessing safe, convenient parking. Using the National Fraud Authority's methodology for calculating losses we estimate the Kent economy could be losing as much as £1.3m per year.
  - False Applications for Financial Support. The applications are from parents falsely presenting to the Council as destitute and having no recourse to public funds. This type of fraud has been increasing in Kent. It has a direct financial impact on the council. Estimating the losses is difficult but based on previous allegations we believe this type of fraud could result in losses of £250,000 per year.
  - Misuse of Direct Payments. This type of fraud causes financial loss to the Council and undermines the public's confidence in the services provided. The individual values vary significantly depending on need but we estimate misuse could result in losses of £100,000 per year.

## **B. Standards**

6. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption based on the seven principles of public life. The Council will ensure probity in local administration and governance and expects the following from all employees, agency workers, volunteers, suppliers and those providing services under a contract with KCC.

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<sup>2</sup> HM Government (2014) UK anti-corruption plan

- Selflessness - Act solely in terms of the public interest.
- Integrity - Avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- Objectivity - Act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- Accountability - Be accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- Openness - Act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- Honesty - Be truthful.
- Leadership - Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

### **Further reading**

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

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

## **C. Roles and Responsibilities**

### **The Role of Elected Members**

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

### **The Role of Employees**

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

### **The role of the Corporate Director of Finance**

18. 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; advising on anti-fraud and anti-corruption strategies and measures; and, ensuring that effective procedures are in place to investigate promptly any fraud or irregularity.

### **The role of the Governance and Audit Committee**

19. The Governance and Audit Committee is responsible for ensuring that 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; and, that the Council monitors the implementation of the Bribery Act policy to ensure that it is followed at all times.

### **Kent County Council's Commitment**

20. Fraud and corruption are serious offences and employees and Members may face disciplinary action if there is evidence that they have been involved in these activities. Where criminal offences are suspected consideration will be given to pursuing criminal sanctions, which may involve referring the matter to the police.
21. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss including the costs of the investigation whenever appropriate.
22. In order to make employees, Members, the public and other organisations aware of the Council's continued commitment for taking action on fraud and corruption, details of completed investigations, including sanctions applied, will be publicised where it is deemed appropriate. This will include use of the Council's Intranet and releasing press statements immediately after criminal convictions are secured. In addition, the council will promote an anti-fraud culture through fraud awareness campaigns, presentations, training and e-learning.

### **D. Prevention**

#### **Responsibilities of management**

23. The primary responsibility for the prevention and detection of fraud is with management. Management must ensure that they promote an anti-fraud culture and have the appropriate controls in place to minimise the risk of fraud, for example, this could include establishing procedures, authorisation limits and segregating duties. Management **must ensure the controls** are

operating as expected and are being complied with. They must ensure that adequate levels of checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

### **Internal Audit and Counter Fraud**

24. The Head of Internal Audit and Counter Fraud is responsible for the independent appraisal of controls and for assisting managers in the investigations of fraud and corruption.
25. Internal Audit includes proactive fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.
26. The Head of Internal Audit and Counter Fraud will establish performance measurements for counter fraud activity and will report progress against the performance measurements proactive counter fraud activity and on a quarterly basis to the Governance and Audit Committee.

### **Working with others and sharing information**

27. The Council is committed to working and co-operating with other organisations to prevent fraud and corruption and protect public funds. This will include:
  - Coordinating our activity with the other enforcement teams across the Council, such as Waste and Trading Standards, to maximise our impact.
  - Working in partnership with district, borough and city councils to share intelligence and target our collective resources at the areas at most susceptible to fraud.
  - Working with and supporting the Police and other enforcement agencies.
28. The Council may use personal information and data-matching techniques to detect and prevent fraud, and ensure public money is targeted and spent in the most appropriate and cost-effective way. In order to achieve this, information may be shared with other bodies responsible for auditing or administering public funds including, but not limited to, the Cabinet Office National Fraud Initiative, the Department for Work and Pensions, other local authorities, HM Revenue and Customs, and the Police.

### **National Fraud Initiative**

29. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (to the Cabinet Office) for example payroll, pension, and accounts payable (but not limited to these)



which is then matched to data held by public and private sector bodies. Enquires are made into any positive matches (e.g. an employee on the payroll in receipt of housing benefit).

### **Training and awareness**

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

### **E. Detection and Investigation**

33. The Council is committed to the risk-based investigation of all instances of actual, attempted and suspected fraud committed against the Council and the recovery of funds and assets lost through fraud.
34. Any suspected fraud, corruption or other irregularity must be reported to the Head of Internal Audit and Counter Fraud. The Head of Internal Audit and Counter Fraud will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with Council policy and procedures, key investigation legislation and best practice. This will ensure that investigations do not jeopardise any potential disciplinary action or criminal sanctions.
35. Action could include:
  - Investigation carried out by Internal Audit staff;
  - Joint investigation with Internal Audit and relevant directorate management;
  - Directorate staff carry out investigation and Internal Audit provide advice and guidance;
  - Referral to the Police.
36. The responsibility for investigating potential fraud, corruption and other financial irregularities within KCC lies mainly (although not exclusively) with

Internal Audit. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

## **F. Raising Concerns and the Whistleblowing Policy**

### **Suspensions of fraud or financial irregularity**

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

### **Whistleblowing Policy**

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

## **G. Conclusion**

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

Report to: Governance and Audit Committee – 24 April 2019

From: Roger Gough, Cabinet Member, CYPE  
Keith Abbott, Director, Education, Planning & Access, CYPE

Subject: **Update on response to the Internal Audit report: SEND including Education, Health and Care Plans & High Needs Funding - RB31-2019**

Classification: Unrestricted

**Past Pathway of Paper:** N/A

**Future Pathway of Paper:** N/A

**Summary:**

This report sets out issues identified in the Audit Report RB31-2019.

The Audit Report advised that it was only able to provide limited assurance to KCC that SEND was effective and within acceptable risk parameters. This led to the Director, Education Planning and Access being engaged directly with improvement in the area, setting up a comprehensive plan of action to address process, data management and oversight. These actions are already in place. Some interim arrangements are in place as the actions also need to take account of the recent Ofsted/CQC local area inspection.

The improvements have already provided some positive outcomes and will continue to do so.

**Recommendation(s):**

The Governance and Audit Committee is requested to note the progress that has been made following the Audit Report and the further improvement work underway to address the areas for improvement identified.

## **1. Introduction**

- 1.1. The report issued in November 2018 gave a limited assurance rating together with a rating of adequate in respect of prospects for improvement. The context in which the service continues to operate is a challenging one which is common to most local authorities as the majority of the issues it faces are national in nature.
- 1.2. The Special Education Needs (SEN) Assessment and Placement Service fulfills Kent County Council's statutory duties in relation to special educational needs and disabilities (SEND), particularly in relation to SEN assessments. It works closely with the Educational Psychology Service in this assessment process.
- 1.3. The Children & Families Act 2014 introduced the biggest changes to SEN in 30 years through the duty to ensure that the views, wishes and feelings of parents are heard. There have been a range of consequences following the raising of parental expectation. The number of Children and Young People in Kent with SEND is rising faster than the underlying growth in population. Kent is now maintaining over 11,900 EHCPs which represents growth of over 70% since March 2014. The incidents of EHCPs being maintained and issued to young people aged 19+ has grown exponentially as the age range for which KCC is responsible was increased from 2-19 to 0-25 without any additional funding from the DfE.
- 1.4. Since September 2014, the service has been responsible for fulfilling duties arising from the Children & Families Act 2014 and the revised SEND Code of Practice. The legislation places the child/ young person and parent/carer at the centre of the decision-making process. The number of requests for statutory assessments has increased by 81% during the last 18 months. All of this growth in demand has resulted in significant overspends on budgets which are largely funded from the High Needs Block of the Dedicated Schools Grant (DSG).

## **2. Areas for improvement**

- 2.1. The report identified a number of areas of strength and eight areas where improvement was required as at November 2018. These are summarised below in the extract from the audit report.
  - With regards to the Education Health and Care Plan (EHC) assessment processes the following was identified from audit testing carried on 80 cases across the districts:
    - Data entered onto Synergy is inconsistent.

- The retention and location of documents is not consistent.
- Timescales have not always been met and in some cases an explanation/ evidence could not be provided for these when queried
- The Local Authority Decision Sheets (LADS) are not always fully completed to align to the processes undertaken.
- Evidence of what quality assessing of the LADS forms has been carried out is limited and not consistent **Issue 1**
- The data held within Synergy has not been cleansed sufficiently to ensure reliability. **Issue 2**
- The use of Synergy is not consistent across the 4 areas. **Issue 2**
- The reporting element of Synergy is not fully utilised due to the quality of the data held. This was evident when trying to extract data for this audit. **Issue 2**
- Although all statemented children cases apart from one have now had a EHCP completed the way in which this is recorded within Synergy is sometimes incorrect. **Issue 2**
- Some timescales have not been achieved with regards to the issuing of a final EHC plan within the statutory 20-week timescales. Of the 80 cases examined, 29 final ECHP had been issued with only 14 issued within the timescales. With regards to the remaining 51 cases the reason for EHCP's not being issued are as a result of either still awaiting further information or that it was decided not to issue a final plan. However, any delay was with the specific agreement of parents who requested a delay to the decision so full information was received. **Issue 3**
- There is a significant backlog of cases waiting to be allocated and assessed by the Educational Psychologists, currently this stands at 637 which is one of the main factors of statutory timescales not being met. **Issue 3**
- There is a large backlog of annual reviews of EHC plans to be completed. **Issue 3**
- The evidence to support the placement decision for mainstream and special schools is not consistent. **Issue 4**
- Although as mentioned above there are various documents which detail the processes with regards to SEN it is evident from audit testing and from the work that CYPE Service Development section are currently carrying out that processes are not consistently carried out across the 4 districts. **Issue 5**
- Some of the processes and forms required to be completed are time consuming and cumbersome. **Issue 5**

- The storage of data in some areas is triplicated in the form of data held on Synergy, electronic file and a manual file. **Issue 5**
- The independent placement panel process was recently put in place in July 2018. We observed an early meeting which we found could be enhanced by ensuring that complete and robust information is provided to allow appropriate scrutiny and challenge such as comprehensive breakdown of costs. **Issue 6**
- Although it is evident that the budgets in relation to SEN including High Needs Funding are monitored regularly in terms of forecasting this is not based on real time information taken from the finance system. **Issue 7**
- We found that the checklist used by High Needs Funding (HNF) Officers does not cover all required criteria for HNF whilst we also found there to be inconsistency in the level of detail recorded. **Issue 8**

### **3. Progress on addressing the eight issues**

3.1. The tables below set out the progress to date against each of the issues identified in the report.

## ISSUES IDENTIFIED & MANAGEMENT ACTION PLAN

1. EHC Assessments	
<p><b>Issue</b></p> <p>The processes for completing an EHC assessment are governed by the CFA 2014, the SEND Code of Practice and underpinned by the SEND Regulations.</p> <p>With regards to the EHC assessment processes the following was identified from audit testing carried out on 80 cases across the districts:</p> <ul style="list-style-type: none"> <li>• Data entered onto Synergy is inconsistent</li> <li>• The retention location where documents are saved is not consistent across the areas.</li> <li>• Timescales have not always been met and in some cases an explanation could not be provided for these when queried, although the 6 week timescale to assess was met in 57 cases, 17 had not been met and in 6 cases it was not possible to calculate this, the highest number of timescales not being met was within the East district which was at 9 cases</li> <li>• The Local Authority Decision Sheets (LADS) are not always fully complete to align to the processes undertaken</li> <li>• Evidence of what QA has been carried on the LADs is limited and not consistent</li> </ul> <p><b>Risk</b></p> <p>Statutory timescales are not achieved.</p> <p>Practices across the areas are not consistent.</p>	<p><b>Risk Rating</b></p> <p>High</p>
<p><b>Root Cause</b></p> <p>Lack of confidence in database has led to an inconsistent use across the areas, and therefore documents being saved in various locations.</p> <p>Timescales recorded on Synergy are inconsistent at the 6 week point and do not always reflect the date the decision was made.</p> <p>Supporting information recorded on LADS is not essential to meeting statutory duty. If the decision is robust and accurate, then the LA is not at risk.</p> <p><b>Management Action Plan:</b></p> <p>Continued work with IT to improve Synergy and recording of information and using Synergy more consistently across County.</p> <p>Training and support for officers to build confidence.</p>	<p><b>Timescales</b></p>

<p>In-depth look at processes as part of ongoing Service Review by Service Development Team. Results and revised actions will be in place after January 2019</p> <p><b>Responsible Officer:</b> Lesley Burnand</p> <p><b>Update on progress</b>  SEN officer with responsibility for Synergy now works alongside Management Information Unit (MIU) 2 days per week to develop workflows and improve Synergy reports.  Induction and ongoing training programme for assessment &amp; placement staff is being finalised.  Synergy Champions have been identified in each area office to allow staff with minor queries to have an immediate response.  Streamlined and refined statutory assessment process designed in response to service review and will be going 'live' on 26<sup>th</sup> April.</p>	<p>September 2019</p>
<p><b>2. Synergy</b></p> <p><b>Issue</b>  It has been established following audit testing and discussions with staff that the data currently held on Synergy is not reliable or accurate. Issues with Synergy were identified soon after the system had been implemented and there are ongoing issues with data inaccuracies.</p> <p>In addition to this although all staff received the same Synergy training at the start of the project there are various inconsistencies as to what data is held on Synergy across the 4 areas.</p> <p>As a result of the data held within Synergy being incomplete the reporting element of Synergy is limited without being viewed alongside locally held reports, this was evident when trying to extract data for this audit.</p> <p><b>Risk</b>  The lack of reliable data may make it challenging to monitor and provide robust oversight to allow the right strategic decisions are taken</p>	<p><b>Risk Rating</b></p> <p>High</p>



<p><b>Root Cause</b> Lack of confidence in database, and ongoing issues with the database identified soon after using system. MIU unable to prioritise SEN improvements due to other priorities and getting other departments using Synergy.</p> <p><b>Management Action Plan</b> Continued work with IT to improve Synergy and recording of information and using Synergy more consistently across County, working with MIU.</p> <p>Cleansing of data recorded to improve reliability.</p> <p>In-depth look at processes as part of ongoing Service Review by Service Development Team. Results and revised actions will be in place after January 2019</p> <p><b>Responsible Officer:</b> Lynne Barnes</p> <p><b>Progress to date</b> See summary in Issue 1 above.</p>	<p><b>Timescales</b></p> <p>September 2019</p>
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3. EHC Plans	
<p><b>Issue</b> There is a statutory requirement for an EHC Plan to be issued within 20 weeks of initial assessment.</p> <p>Statutory timescales are not always met. Upon examination of 80 cases the following was established:</p> <ul style="list-style-type: none"> <li>Although the 6 week timescale to assess was met in 57 cases, 17 had not been met and in 6 cases it was not possible to calculate this</li> <li>An EHCP was issued in 40 cases with only 16 cases informing the parent/ carer within the 16 weeks timescale</li> <li>Of the 29 Final EHCPs issued 14 were within the 20 week timescale</li> </ul> <p>Currently one of the main contributing factors is the delay in receiving a report from the Educational Psychologists.</p>	<p><b>Risk Rating</b></p> <p>High</p>

<p>There is a significant backlog of cases (637) waiting to be allocated and assessed by the Educational Psychologists.</p> <p>The quality of the EHC plans is not consistent with some only recording minimal information.</p> <p>In addition to statutory timescales not always being achieved with regards to issuing a EHC plan it was mentioned that there is currently a backlog of the annual reviews not being processed. There is a statutory requirement for all EHC plans to be subject to an annual review. It was not possible to substantiate this backlog as a report could not be extracted from Synergy of outstanding reviews and despite requests to the district leads for statistics on these outstanding reviews only one response was received.</p> <p><b>Risk</b></p> <p>Current details and progress not regularly reviewed may result in long term misidentification of support and funding.</p> <p>Child's needs not being identified and therefore not met resulting in failure to achieve best outcomes</p>	
<p><b>Root Cause</b></p> <p>Backlog of EP assessments – which is a national issue with shortage of EPs. Kent is not the only county affected. Frequent changes in staff resulting in lack of consistency in Plans.</p> <p><b>Management Action Plan</b></p> <p>QAing of Plans is ongoing and has seen improvements in Plans. No Plan is issued without being QA'd by a DL or AM.</p> <p>Areas of improvement being identified as part of QAing process to inform training requirements.</p> <p>Trial of new EP processes to clear backlog and inform decisions where needed. Following successful pilot in West Kent, new procedures now being rolled out across County</p> <p><b>Responsible Officer:</b> Lesley Burnand/Lynne Barnes</p> <p><b>Progress to date</b></p> <p>New quality assurance process being implemented but may need revising to ensure we are also responding to Ofsted/CQC concerns. This is to ensure appropriate professionals (ie. Teachers) use their professional knowledge to quality assure sections of the EHCP within their remit.</p> <p>Compliance with legislation and set processes are checked by the District Lead or Area Manager.</p>	<p><b>Timescales</b></p> <p>August 2018</p> <p>November 2018</p> <p>November 2018</p>

New process for allocation of EP time has seen a drop of the backlog from over 650 to 270 at March 2019. This figure is reducing each week. This process provides EP's with a wider range of options for providing compared advice to previous practice. This saves time and utilises information already available.  
We have stabilised the staffing issues within the EP service through bringing pay into line with other Local Authorities but recruitment remains a severe challenge due to a national shortage of qualified staff.

#### 4. Placements

##### Issue

Within the Local Authority Decisions Sheet is a section that allows for capture of information about a potential placement in terms of parent preference. In a situation where there are 2 placements which can meet need, the legal test would be applied and officers would prepare this for a manager decision. There are guidance documents which detail the processes for deciding a placement and making decisions

It was recently agreed that in order to introduce greater scrutiny of the decision to place children in independent provision, with the view that local provision is preferred (unless there is a compelling reason) a Placement Panel would be introduced that is made up of senior officers from SEN, finance and special school head teachers. SEN Area Managers would then need to present the case for Independent Non-Maintained Special Schools (INMSS) placement, giving reasons as to why the needs cannot be met in a maintained mainstream or special school.

Using the sample of 29 final EHCPs that had been issued information to support the placement is not consistent across the areas.

##### Risks

Providing too much financial support where resources are not needed leading to a loss on the part of KCC.

Inappropriate placement given to the child which will be detrimental to the child's learning and development as well as a lack of consistency of allocating funds, leading to reputational damage to KCC.

##### Risk Rating

Medium

Not fully utilising mainstream provision and inappropriate placement in specialist and independent providers will represent poor value for money.	
<p><b>Root Cause</b> Lack of maintained places in mainstream, special schools and SRPs has resulted in too much reliance on independent sector. Lack of detailed information provided by Independent schools may have led to duplicate support being in place.</p> <p><b>Management Action Plan</b> Being addressed as part of Project Overview by Service Development Team and overarching Action Plan. Attached (see communications and independent placements).</p> <p><b>Responsible Officer:</b> Louise Langley, Lesley Burnand</p> <p><b>Progress to date</b> Independent school placement county panel established to robustly gatekeep decision making on placements in the independent sector. This county panel includes Headteachers. Data shows a slow-down in the budget pressure. The annual commissioning conversations with special schools for September 2019 identified a number of small increases of placements for most of our special schools that totalled 500 additional places. New special schools are planned to come on-line in 2020 and 2021, as detailed in the Kent Commissioning Plan. We have successfully bid for a new Free Special School on the Isle of Sheppey. We increased the number of specialist resource provision (SRP) places by 116 in September 2018 and another 85 places will be available from September 2019 when new SRPs open. New contracts for block purchasing at some of the independent schools is being discussed to enable a reduction in costs. This follows discussions with OLAs on their approach to this area of activity. Inclusion in mainstream schools is lower in Kent than other LAs and variable commitment to inclusion was identified in the recent Local Area Ofsted/CQC inspection. This will be addressed through the Local Area Written Statement of Action. (WSOA)</p>	<p><b>Timescales</b></p> <p>February 2019</p>

5. Internal Policies & Procedures	
Issue	Risk Rating

<p>SEN processes are mainly governed by the SEND Code Of Practice, however there are also a variety of documents that have been compiled by the SEN service which are available to placement providers, Parents/guardians and staff. However, it was identified during audit testing of a sample of cases that processes are not carried out consistently across the 4 area districts such as where information should be recorded. The recent work that that the CYPE Service Development Team are currently carrying out is also coming to the same conclusion.</p> <p>The inconsistent processes include:</p> <ul style="list-style-type: none"> <li>• Documents received are not consistently date stamped</li> <li>• Completion of the LADs forms, on occasions these are fully completed but not in all cases, in addition the location of these forms varies and not all of these could be located</li> <li>• Draft EHCPs are not always held as sometimes these are overwritten with the final EHCP</li> <li>• Explanations for queries could not be provided in all cases due to case notes etc not being up to date</li> <li>• Costing of placements is not consistently recorded with the EHCPs</li> <li>• Data is stored in various ways such as within Synergy, in an electronic file, a paper file or even in all three forms with the same information being held.</li> </ul> <p>In addition, a number of the documents which are required to be completed and in particular the Local Authority Decisions sheet (LADs) are time consuming and cumbersome.</p> <p><b>Risk</b></p> <p>Lack of consistent practices could result in outcomes which are not the best ones for either KCC or the child whilst there is a risk of inefficiencies and waste of resources if information is triplicated</p>	<div data-bbox="1865 268 1982 343" data-label="Image"></div>
<p><b>Root Cause</b></p> <p>Supporting information recorded on LADS is not essential to meeting statutory duty. If the decision is robust and accurate, then the LA is not at risk.</p> <p><b>Management Action Plan</b></p> <p>Being addressed as part of Project Overview by Service Development Team and overarching Action Plan. Attached (see sections FE sector &amp; transition, increase mainstream schools capacity to meet SEN and quality of EHCPs).</p> <p><b>Responsible Officer:</b> Louise Langley, Lesley Burnand</p>	<p><b>Timescales</b></p> <p>September 2019</p>

<p><b>Progress to date</b> Streamlined and refined statutory assessment process designed in response to service review and will be going 'live' on 26<sup>th</sup> April. Compliance with legislation and set processes are checked by the District Lead or Area Manager.</p>	
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6. Independent Placements	
<p><b>Issue</b> We found there to be positive improvements to the Independent Placement process which allowed for applications to be scrutinised and we observed push back and not necessarily reject on those which lacked necessary detail. However, this could be enhanced by ensuring that complete and robust information is provided to allow appropriate scrutiny and challenge. We observed the Independent Placement Panel and made the following observations:</p> <ul style="list-style-type: none"> <li>• Comprehensive break down of costs so that the cost can be scrutinised fully were not available from the independent provider. Costs included details such as core fees but did not provide a breakdown of the elements which make this up allowing for a risk of duplication of payments for provision. Discussions with officers following the panel found that Placement Officers obtain the costs directly from the school and they may not have the necessary experience to be able to provide the level of detail in the costings required to adequately scrutinise.</li> <li>• Progress/ attainment of the young person needs to be documented to inform the decision which was not present in all cases.</li> <li>• Some of the cases taken to the panel were approved with the agreement that this would be their final year however the discussions at the meeting suggested that this was due to their not being a clear progression to ASCH being considered.</li> </ul> <p><b>Risk</b> The lack of information to support decisions may lead to applications being accepted inappropriately or KCC paying increased cost of provision.</p>	<p><b>Risk Rating</b></p> <p>Medium</p>
<p><b>Root Cause</b> Lack of oversight of independent Placements.</p>	<p><b>Timescales</b></p>

<p><b>Management Action Plan</b> Being addressed as part of Project Overview by Service Development Team and overarching Action Plan. Attached (see independent placement section).</p> <p><b>Responsible Officer:</b> Louise Langley, Lesley Burnand</p> <p><b>Progress to date.</b> See detailed response in Issue 4 above. Independent school placement panel established to robustly gatekeep decision-making on placements in the independent sector. Data shows a slow-down in the budget increase.</p>	<p>September 2019</p>
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7. Budget Monitoring and Forecasting	
<p><b>Issue</b> Factors such as increases in the Kent school age population, medical advances, increased diagnosis and parental expectations has led to an increase in the number of pupil's subject to EHCPs. Whilst Kent has a range of approaches to providing earlier and more effective support to pupils with SEN, including high needs funding for pupils in mainstream, it is anticipated that the demand for specialist places will continue to increase with the overall population growth.</p> <p>It was evident that regular budget monitoring and forecasting is completed, and the current forecast is that there is to be an overspend of over £10m by the end of 2018/19. The main areas that attribute to this overspend are independent and special schools and the mainstream budget is forecasting an underspend.</p> <p>Although forecasting is completed there are difficulties in ensuring the accuracy of this as poor information is available in terms of live information from Synergy.</p> <p>In addition to the above there are currently no documented procedures as to how the budgeting and forecasting is completed and no succession plan in place if key members of staff leave.</p> <p><b>Risk</b> Lack of accurate information to support monitoring could lead to significant financial pressures on the council and the reserves.</p>	<p><b>Risk Rating</b></p> <p>Medium</p>

Not enough funding given to children which will be detriment to the child.	
<p><b>Root Cause</b> Increased number of requests for statutory assessments due to changes in legislation.</p> <p><b>Management Action Plan</b> Being addressed as part of Project Overview by Service Development Team and overarching Action Plan. Attached (see annual review process, independent school placements, FE sector and transition into adulthood and High Needs Funding sections).</p> <p><b>Responsible Officer:</b> Louise Langley</p> <p><b>Progress to date</b> To address the number of statutory assessment requests we are in the process of developing more specific information for parents on our Local Offer that details the graduated response to SEND and criteria for statutory assessment. We are also working with health and social care colleagues to ensure they have training to understand the process. This will be a key focus of the work that will form part of the Written Statement of Action following the recent Local Area Ofsted/CQC inspection.</p>	<p><b>Timescales</b></p> <p>September 2019</p>

8. High Needs Funding Checklist	
<p><b>Issue</b> Through discussions with the High Needs Funding Officers it was suggested that the checklist used for High Needs Funding needed to be reviewed as this doesn't make clear all necessary steps such as the following:</p> <ul style="list-style-type: none"> <li>• Whether the local offer has been met.</li> <li>• Training had been completed against the needs of the child within the last 2 years.</li> <li>• The school provision map has been obtained to establish if the core offer already meets the needs for HNF and act as a mechanism to challenge a school where they may already be providing provision</li> </ul> <p>This is supported by our testing in which we found a number of instances where evidence of the school provision map had not been obtained. Of those agreed 22 out of 31 did not have the school provision map and 16 out of 31 did not evidence that</p>	<p><b>Risk Rating</b></p> <p>Low</p>



<p>training had been completed by the school. We were informed that these are new requirements and that their omission from the checklist may be a potential reason for this.</p> <p>Additionally we found a difference in the level of detail recorded between the area as we found that in North and West Kent they would type the rationale directly into the form which makes understanding the rationale for placement clear however, in South and East Kent they write on the forms making it more difficult to support the rationale in these areas (though in all cases in these areas there was sufficient evidence to support the decision to award HNF)</p> <p>It was also suggested that there perhaps needed to be guidance surrounding what training should be undertaken by the school as per the criteria for HNF.</p> <p><b>Risk</b></p> <p>Incomplete guidance could lead to inconsistent practices and the agreeing of inappropriate / unnecessary funding costing meaning that value for money is not obtained.</p>	
<p><b>Root Cause</b></p> <p>Increased inclusion within high needs funding</p> <p><b>Management Action Plan</b></p> <p>Being addressed as part of Project Overview by Service Development Team and overarching Action Plan. Attached (see High needs funding section)</p> <p><b>Responsible Officer:</b> Louise Langley, Louise Hickman</p> <p><b>Progress to date</b></p> <p>High needs funding budget within mainstream had an underspend of £4m in response to the new processes implemented during 2018.</p>	<p><b>Timescales</b></p> <p>September 2019</p>

#### 4. Recommendation(s):

- 4.1. The Governance and Audit Committee is requested to note the progress that has been made following the Audit Report and the further improvement work underway to address the areas for improvement identified.

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By: Susan Carey – Cabinet Member for Customers, Communications and Performance

David Cockburn – Corporate Director, Strategic and Corporate Services

To: Governance and Audit Committee – 24 April 2019

Subject: **DATA QUALITY POLICY**

Classification: Unrestricted

### Summary:

KCC first adopted a Data Quality Policy in March 2008. The Data Quality policy helps ensure that performance information and information used for decision making is robust and fit for purpose. The policy is part of the council's internal control mechanism and is used to inform areas of Internal Audit's lines of enquiry. Over time the Policy has been subject to regular review, but no amendments have been made since 2013, when the policy was updated in response to an Internal Audit recommendation. The most recent review of the policy has resulted in some minor changes in wording and Members are asked to APPROVE the attached updated Data Quality Policy.

### FOR DECISION

#### 1. Introduction

1.1 KCC first adopted a Data Quality Policy in March 2008, with the policy approved by the Governance and Audit Committee.

1.2 The Data Quality Policy was a response to the Audit Commission document *Improving information to support decision making : standards for better quality data, November 2007*.

1.3 In subsequent years the Data Quality Policy and the council's compliance with it was a focus for external audit and the strength of the council's approach in this area informed external audit judgements for Value for Money. The implication of this was that robust processes for securing good quality data was considered a requirement for good decision making. This as summed up the Audit Commission statement:

“Accurate and reliable data is important to support sound analysis and good decision making. Because of this, auditors of local public bodies will continue to look at the quality of data, with emphasis on local arrangements for ensuring the accuracy of data...”

*Comprehensive Area Assessment*, Audit Commission, November 2007.

1.4 Internal Audit conduct regular audits of the council's Performance Management arrangements and within this, compliance with, and understanding of the council's Data

Quality Policy by those working with data has always been a core element of this audit work.

1.5 Internal Audit also focus on Data Quality issues across a range of specific and themed audits, in relation to systems and processes across services throughout the council, where compliance with the Data Quality Policy is also a focus within such audits.

1.6 During the recent review of the council's Strategies and Policies, although not being a statutory requirement, the decision was made to retain the Data Quality Policy within the council's overall framework of policies, due to its relative importance as part of the council's internal control mechanisms, with the continuation of the Policy being considered to be Best Practice.

## **2. Definition of Data Quality and Scope of the Policy**

2.1 Quality is here defined as "fit for purpose", where the purpose is to inform the decision making process of the council.

2.2 Data refers to numeric and quantitative information, which may relate to activity, inputs, outputs, performance or the quality of services provided by the council, as well as similar information which may relate to the general quality of life of Kent residents, such as crime or health statistics.

2.3 The scope of the Data Quality Policy is primarily in relation to aggregate data and summary statistics relevant to performance management at a service or strategic level, otherwise known as Performance Indicators (PIs). Delivering good quality data at this level requires good record keeping within day to day operations and within client level records.

2.4 Data Protection and Information Governance have separate, although related requirements to the general requirements around management arrangements for securing data quality and are addressed in more detail within existing policies and documentation. In some cases data security is related to data quality through a subordinate role, for example if data are not secure, its quality could be comprised.

## **3. Updates to the policy**

3.1 The Data Quality policy was first adopted in March 2008.

3.2 Version 2 of the Policy, the current published version, was adopted in 2013. The policy was updated at that time in response to an Internal Audit recommendation that the policy should include clearer guidance in relation to data received through partnerships or external contracts, which are an important concern for a Commissioning Authority.

3.3 Version 3 of the Policy, for which this paper seeks approval contains no material amendment to the policy. Any changes included in the latest version are minor and in the main have been made for the purpose of ensuring clarity of wording.

## **4. Conclusion**

4.1 To support the council to continually improve services and provide better outcomes for Kent residents it is vital that elected members, stakeholders and the residents can be confident that decisions are based upon high quality information.

4.2 The council's Data Quality Policy supports this goal and communicates to the organisation the importance of Data Quality, giving clarity on responsibilities and the standards required for good data quality.

4.3 The Data Quality Policy remains as a core component of the council's Strategy and Policy register.

## **5. Recommendation**

5.1 Members are asked to APPROVE the attached updated Data Quality Policy in Appendix 1.

## **6. Contact details**

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# Data Quality Policy

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Document Owner	Richard Fitzgerald 03000 416091 richard.fitzgerald@kent.gov.uk
Version	3.0 Dated March 2019
Approved	



## Introduction

The Council recognises the importance of having good quality data. The overarching objective of this policy is therefore to improve the quality of all data used by the Council.

This document sits alongside the Information Protection Policy and Records Management Policy. The purpose of this policy is to manage the quality of the data collected and used by the Council in relation to performance management and decision making. This policy document sets out the Council's approach to ensure that:

- information is fit for purpose, with appropriate balance between the characteristics of good quality data which are relevance, accuracy, timeliness, accessibility, coherence and comparability,
- awareness of data quality is fully embedded across all services and is a key factor considered by all staff dealing with data, whether from a collection or a decision making point of view.

Good data are essential for the Council's operational business and performance management. To be effective it is important that the data, which underlies performance information, is robust and reliable. We use data to:

- Understand the Kent population and our customers.
- Inform good decision making and effective service planning.
- Help measure the effectiveness and efficiency of our services to the public.
- Identify and resolve issues rapidly and manage our risks.
- Benchmark cost and performance with other authorities.
- Set targets to improve performance, reduce cost and improve customer satisfaction.

Performance data and information is used by external bodies such as Ofsted to inform their inspections of specific services with a need for the council to demonstrate that underlying data are reliable and of good quality.

In working to improve data quality we are aware of the need to balance the cost of collecting and collating data into useable information and the benefits derived from using the information.

The risk of not addressing data quality is inaccurate or misleading information, or information which is too late to be of use. The consequence of this is flawed decision making, wasted resources and potentially non-compliance with statutory legislation or regulatory pressures.

Service specific policies and procedures will flow from this corporate policy, where relevant and necessary, thereby ensuring that all the corporate standards outlined in this policy are maintained across the council.

To show how importantly the council treats data quality this document will be available to all stakeholders and published on the web site.

## Characteristics of good data quality

There is common agreement across International Statistical Agencies (e.g. Eurostat) and other commentators that Data Quality is defined as “fitness for purpose” in terms of user needs. It is generally recognised that Data Quality is best viewed as a multi-faceted concept with a number of important dimensions, which need to be balanced appropriately in collecting and presenting data.

When designing and reviewing data collection processes, the following characteristics of data quality should be considered, and an appropriate balance made between the different characteristics to ensure the needs of the users of the data are met to best effect.

- **Relevant** - Data should be defined, selected, collected, recorded and analysed with the intended use and audience in mind.
- **Accurate** - Data should provide a true account of what it is intended to represent to enable informed decisions to be made.
- **Timely** - Data should be available frequently and promptly enough for it to be valuable for managing service delivery and decision making, providing the opportunity to take corrective action where needed.
- **Accessible** - Data should be easily available to those who need access to it. This also refers to the format used to present the data and accompanying notes of explanation to ease interpretation.
- **Coherent** - Refers to data being consistent with other available information, either from other sources or with different frequency.
- **Comparable** - Data should be comparable across time, which requires consistency of method in preparation of the information. Where changes in methodology have occurred, this should be clearly stated in a commentary alongside the data.

The dimensions or characteristics of good data quality outlined above align closely to those used by organisations such as the Office of National Statistics, Eurostat and OECD.



## KCC Data Quality Standards

The Council's standards for data quality are defined below and all staff with accountability for data quality should work to ensure that:

1. All data collected and stored by the council are clearly defined and understood, with clear documentation in place to support this.
2. All performance indicators reported within KCC performance dashboards will have a Performance Indicator Definition form completed and reviewed annually.
3. Information is collected accurately at source and initial input into any computer system is tightly controlled so that our performance information is right first time.
4. The management of data within the organisation is delivered with a connected and robust framework of systems, policies and procedures for data handling within each service area.
5. There are appropriate internal controls in place to check the quality of data reported, and that any issues or concerns about data quality are included within any reporting of that data.
6. High standards of data quality are received from partners on the information they share with us and which we make use of in decision making or assessing performance.
7. The information we process and use is regularly reviewed against the characteristics of good quality data, to ensure it is fit for purpose.
8. Services have in place the right resources, and in particular the right people with the right skills, to ensure we have timely and accurate performance information.
9. Provide effective training for staff who are required to collect and input data, so that the data quality expectations in terms of this policy are understood.
10. Data is stored, used and shared in accordance with the Data Protection Policy and Records Management Policy.

## Roles & Responsibilities

The specific responsibility for data quality for any individual in the organisation will be dependent on their role. The different roles in the organisation and their responsibilities for data quality are shown below.

<b>Role</b>	<b>Areas of responsibility</b>
Elected Members	<ul style="list-style-type: none"> <li>• Awareness of this Data Quality policy.</li> <li>• Monitor and challenge that services have sufficiently robust systems in place to ensure good data quality for key management information.</li> <li>• Consider the quality of data before them when making decisions.</li> </ul>
Corporate Directors & Directors	<ul style="list-style-type: none"> <li>• Overall responsibility for assuring the quality of data (in particular that which is business critical).</li> <li>• Ensure improvement action is taken where necessary.</li> <li>• Verify and sign off performance reports.</li> </ul>
Heads of service	<ul style="list-style-type: none"> <li>• Communicate the Data Quality Policy ensuring it is understood and implemented by all staff.</li> <li>• Review data quality and agree actions for improvement where required.</li> <li>• Advise elected Members of any data quality issues.</li> <li>• Ensure data quality training is available and sufficient.</li> </ul>
All other Managers	<ul style="list-style-type: none"> <li>• Understand and implement the Data Quality Policy.</li> <li>• Responsible for ensuring that staff have the necessary skills required to deliver high quality data. This is reflected in job descriptions, monitored and supported through the staff appraisal process.</li> <li>• Ensure appropriate systems and processes are in place to deliver high quality data, and contingency arrangements and appropriate controls are in place to give assurance about quality.</li> </ul>
All Staff Members	<ul style="list-style-type: none"> <li>• Aware of this Data Quality Policy.</li> <li>• Aware of their individual responsibilities relating to data quality and how their day to day work can impact upon the quality of data and add value for the organisation.</li> </ul>
Analytics, Performance and Management Information Teams	<ul style="list-style-type: none"> <li>• Have knowledge of relevant performance measures, requirements and performance issues.</li> <li>• Ensure high quality information is regularly provided within the timescales agreed, highlighting any changes, caveats or potential issues relating to the information provided (e.g. changes to systems, sources and definitions) so that sound judgements can be made about how this information should be used and interpreted.</li> <li>• Ensuring that the information provided is supported by underlying working papers/records and that these are retained as appropriate.</li> <li>• To support all managers in ensuring they understand and deliver on the requirements of the KCC Data Quality Policy.</li> </ul>
Internal audit	<ul style="list-style-type: none"> <li>• Annual audit programme to review underlying systems used to produce performance information using a risk based approach.</li> </ul>

## **Additional Guidance**

Additional guidance to support the Data Quality Standards is provided below.

### Systems & Processes

Arrangements for collecting, recording, analysing and reporting data (including frequency and quality standards required) should be considered as part of the business planning process, for example when new indicators are agreed.

These systems and processes should be set up in a way that maximises our ability to achieve high quality data first time, avoiding the need to divert resources and cause delays due to excessive checks, controls and 're-works'.

The level of checks and controls should be proportionate to the value of the data and risk of poor quality. These should be appropriate to the systems and processes being used and include lead officer 'sign off' to assure the quality of data.

Contingency arrangements should be established to ensure data can be delivered when circumstances change. This should include, as a minimum, producing back-ups of data, creation/retention of audit trails and ensuring that there is a deputy in place who would also have some knowledge of the relevant data and processes and/or systems used to produce it.

Relevant supporting information should be held for all performance data, including a Performance Indicator Definition form.

Systems and processes should be regularly tested to ensure they remain fit for purpose. Data quality should be regularly reviewed in-year using appropriate tools and techniques to enable necessary actions to be taken where issues are identified.

Staff involved in the production or use of data should be provided with appropriate training and support to ensure data are produced and used in a way that adds value for the organisation and is of high quality.

### Partnership working and contracts

Where data is provided by a third party or shared externally the following should be agreed and documented in Service Level Agreements (SLA) or contracts:

- Clear definitions of data requirements and terminology.
- Statement of expected levels of data quality and data validation.
- Outline of quality assurance processes to ensure data quality standards are met.
- Process to ensure notification of any changes to methods of data collection that may impact upon the data provided.
- Ensure that Data Quality is not compromised by data adjustment, e.g. it should be clear where estimates or sampling are being used.
- Clear process to address any issues or questions over data quality.

### Data use and reporting

To provide most value, data should be focused upon supporting the organisational priorities and be defined in a way that will support decision making and help the organisation take appropriate action.

Data should be presented in a format that is meaningful and accessible to the users of that data. This includes for example providing numbers alongside percentages, so that performance and activity are considered together. User feedback should be sought to ensure outputs continue to be valuable.

Where the preferred performance data are not available as expected, the creation of proxies/alternative data sources should be considered, where these will support decision making. In these instances, care needs to be given to ensure that data shows what it is intended to and limitations of such proxies are communicated and taken into account by users.

To get most value from data, supporting commentary and contextual information needs to be maintained and kept relevant and up to date, with any caveats or data quality issues clearly outlined.

Data should be at an appropriate level of detail to influence management decisions e.g. broken down to underlying activity, district or service level where meaningful.

Comparison to earlier periods and/or other organisations or groups should be considered to help with interpretation of data and identifying potential areas of good practice.

Where there is significant variation in performance against target and/or over time, underlying information and causes should be considered to identify whether this is a performance issue or data quality issue. Monitoring and reporting should include a review of latest progress on such issues and any management action being taken to address these.

Where data quality issues are raised internally through self-assessment or externally, e.g., through matters arising from audit, this should be taken into account in any interpretation and analysis.

All reporting should be compliant with data protection legislation. This includes suppression of figures which are less than 5 if publication could result in the identification of individuals.

## Performance Indicator Definition Form

**Completion of all sections of this form is mandatory and an audit requirement for ALL Performance Indicators reported to Cabinet and Cabinet Committees.**

**All performance indicators reported in published performance reports must have a KCC Performance Indicator Definition form completed at the start of each year. If the indicator was reported in the previous year, then the indicator definition must be reviewed and updated by completion of this form.**

<b>KCC PERFORMANCE INDICATOR DEFINITION</b> <b>State Year</b>	
<b>SHORT NAME</b> for the indicator which clearly summarises the area being measured (e.g. Child protection reviews)	
<b>Reference No.</b>	<i>Unique Performance Indicator Reference Number Defined by Division and Service e.g. SCS 001</i>
<b>Description</b>	<i>Provide a full and unambiguous description of what is being measured by the indicator</i> <i>e.g. The percentage of child protection cases which were reviewed within statutory timescales as a percentage of those cases which were due for review.</i>
<b>Purpose /aim</b>	<i>Use this space to show which business plan objective the indicator supports or how this represents a core service outcome.</i>
<b>Definition</b>	<i>Use this space to provide a full technical definition of the indicator. Include details of numerators and denominators if the indicator is a ratio of two other figures. Specify records in underlying database which are included and those which are excluded.</i>  <i>Example :</i>  <i>Numerator: The number of children on the Child Protection Register at reporting date who at that date had been on the Register continuously for at least the previous 3 months and whose cases had been reviewed within the required timescales.</i>  <i>Denominator: The number of children on the Child Protection Register at the reporting date who at that date had been on the Register continuously for at least the previous 3 months.</i>  <i>If the indicator is a result of a complex query against a number of database tables, ensure the method of the query is fully documented and refer to the to this as a source where further details can be obtained. It is an audit requirement that reported figures can be traced back exactly to underlying database sources and previously reported figures re-tested and confirmed by full walkthrough during the audit process.</i>

<b>Formula</b>	<p><i>Detail the formula which specifies the indicator precisely in a mathematical format.</i></p> <p><i><math>N = (\text{Numerator} / \text{Denominator}) \times 100</math></i></p>
<b>Number format</b>	<p><i>Detail the format of the number being reported. E.g to 1 decimal place, or whole number</i></p>
<b>Information systems</b>	<p><i>Provide the name of the information system which will provide the source data for this indicator - e.g. HR Oracle database, Swift, standalone Access database, locally designed excel spreadsheet, etc</i></p> <p><i>Specify if the indicator is calculated after drawing data from different sources and then matching them on client reference or similar such method.</i></p> <p><i>Specify the source if data is obtained externally to KCC, providing name and publisher. e.g. data are taken from quarterly Recorded Crime Statistics published by Home Office.</i></p>
<b>Measurement Period</b>	<p><i>Generally indicators are expected to be available continuously throughout the year on a monthly basis (or quarterly in some cases) accumulating to annual figures which are reported by financial year.</i></p> <p><i>If data does not conform to this, please provide details, such as “school attainment results available by academic year”. The main exception here is expected to be for pupil academic attainment or indicators which relate to once a year surveys. i.e exceptions are only a result of how the data is physically collected.</i></p>
<b>Data Quality</b>	<p><i>Identify and document data quality processes in place. Where there are known issues with completeness or other issues which may affect interpretation of results please specify.</i></p> <p><i>Examples:</i></p> <p><i>Detailed client level reports are run each month and checked for accuracy by service managers.</i></p> <p><i>There is a delay in processing information and in-year figures are therefore provisional. Final year-end data is fully validated once it is confirmed that all data entry is complete.</i></p>
<b>Change control</b>	<p><i>Note any variations in the measurement of this indicator that have occurred this year. Indicators should be reported on a consistent basis for a full year and continue to be reported on the same basis as in previous years.</i></p> <p><i>However, there are at times valid reasons to change the way an indicator is reported and measured. Any such changes should be made at the start of a new year of reporting and not part way through the year. The details and impact on figures should be highlighted here, on the occasions when this happens.</i></p>

<b>Accountabilities</b>	<p><i>Accountabilities here should list:</i></p> <ol style="list-style-type: none"> <li><i>1. Person accountable for delivering the service which is being measured – Director or Head of Service and should not be below this level.</i></li> <li><i>2. Person accountable for data quality checks</i></li> <li><i>3. Person accountable for collating and reporting results upwards to higher management and feeding into Directorate Dashboards.</i></li> </ol> <p><i>There should be clear separation of duties in these accountabilities.</i></p>
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<b>Date of completion/review:</b>	<b>Completed/reviewed by:</b>

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By: Peter Oakford, Deputy Leader and Cabinet Member for  
Finance and Traded Services  
To: Dave Shipton, Acting Corporate Director Finance  
Governance and Audit Committee – 24 April 2019  
Subject: **TREASURY MANAGEMENT UPDATE**  
Classification: Unrestricted

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Summary: To report a summary of Treasury Management activity  
2018-19 to date

**FOR ASSURANCE**

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**INTRODUCTION**

1. This report covers Treasury Management activity and developments in 2018-19 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 2018-19 was approved by full Council on 20 February 2018.
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 2019 report is attached in Appendix 1.

**EXTERNAL CONTEXT**

6. The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, has continued to be a major influence on the Council's treasury management activity in 2018/19.
7. UK Consumer Price Inflation (CPI) for January was up 1.80% year/year, in line with the consensus forecast. The most recent labour market data for the three months to January 2019 showed the unemployment rate had fallen slightly to 3.9% while the employment rate of 76.1% was the highest estimate since comparable estimates began in 1971. The 3-month average annual growth rate for pay excluding bonuses was 3.4%% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation,

real wages grew by 1.4%, a level likely to only have a modest impact on consumer spending.

8. Quarterly GDP growth fell to 0.2% in the fourth calendar quarter from 0.6% in the third quarter reflecting slower growth in production, construction and services. At 1.3%, annual GDP growth continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since.
9. A temporary truce in the ongoing trade war between the US and China was announced as the leaders of both countries agreed to halt new trade tariffs for 90 days to allow talks to continue. Tariffs already imposed will remain in place. The fallout continues to impact on economic growth and stock market volatility.
10. Over recent weeks the FTSE 100 (a good indicator of global corporate sentiment) has regained much of the fall suffered in the period to the end of December 2018. Finishing at the end of February 2019 at 7,075. Spreads on corporate bonds have widened reflecting concerns about tougher economic conditions ahead and the abilities of corporates to service their debt obligations.
11. Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. The higher Bank Rate continued to push up money markets rates. 1-month, 3-month and 12-month LIBID rates have averaged 0.58%, 0.76% and 1.03% respectively over the period.
12. The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) is complete and the transfer of their business lines into retail (ringfenced) and investment banking (non-ringfenced) was done prior to starting trading as separate entities from 1st January 2019.
13. 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.

## **LOCAL CONTEXT**

14. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's strategy continues to be to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.

## **BORROWING STRATEGY**

15. At 28 February 2019 the Council had total debt outstanding of £908m a reduction of £34.6m from the balance as at 31 March 2018. Details of the Council's debt are shown at Appendix 1.
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. In keeping with these objectives no new borrowing was undertaken other than as part of the restructure of the LOBO portfolio and in respect of the Council's replacement streetlighting project. £20.44m of existing PWLB loans were allowed to mature without replacement.
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. No banks exercised their option during the period.
19. In October having assessed the risks and benefits including restructuring savings the Council successfully negotiated the prepayment of its 3 RBS LOBO loans with a principal value of £60m as follows:

#### Prepaid RBS LOBO loans

Start date	End date	Yrs to mty	Principal	Coupon	Disc rate	Premium	Redemption Amount
			£m	%	%	£m	£m
10/8/11	10/8/57	38.85	25.0	3.83	2.95	5.1	30.1
10/8/11	10/5/58	40.0	25.0	3.83	2.94	5.2	30.2
30/1/09	30/1/69	50.33	10.0	3.95	2.90	2.8	12.8
		<b>41.19</b>	<b>60.0</b>	<b>3.85</b>		<b>13.1</b>	<b>73.1</b>

20. Taking account of advice from Arlingclose the prepayment was financed using a combination of a £40m 15-year EIP (Equal Instalment of Principal) loan from the PWLB at 2.21%, and cash balances. As a result of this change the Council was able to reduce the average interest rate payable on its borrowing and reduce its long-term debt exposure.
21. This funding arrangement using cash balances was deemed to represent the best balance between risk and reward. The combination of lower interest rate payments on debt partially offset by loss of investment income/cost of short-term borrowing is expected to deliver a net revenue saving of £400k to £500k per annum.
22. 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.

## **INVESTMENT ACTIVITY**

23. The Council's average investment balances to date have amounted to £360m, representing income received in advance of expenditure plus balances and reserves held. Cash balances have risen during the year and are higher than originally expected mainly as the result of the receipt of £100m capital grants offset by the net outflow in respect of the LOBOs prepayment of £33m.
24. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing

money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

25. In furtherance of these objectives and given the risk and low returns from short-term unsecured bank investments the Council has diversified into more secure and/or higher yielding asset classes as set out in its Treasury Management Strategy Statement for 2018-19.
26. Details of the Council's investment position are reported in Appendix 1. The average rate of return on the Council's portfolio for the 11 months to end February was 2.12% which is used to support services in year.
27. KCC's £150m of externally managed pooled (bond, equity and property) funds generated an average income return of 3.72%. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed.
28. Following consultation, MHCLG will implement a statutory override relating to the introduction of the IFRS 9 Financial Instruments accounting standard from 2018/19. While requiring IFRS 9 to be adopted in full, the statutory override will require fair value movements in pooled investment funds to be taken to a separate unusable reserve instead of the General Fund. The override will be in place for at least five years until 31 March 2023.

#### **Statement of investments**

29. A statement of investments as at 28 February 2019 is attached in Appendix 2.

#### **RECOMMENDATION**

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

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

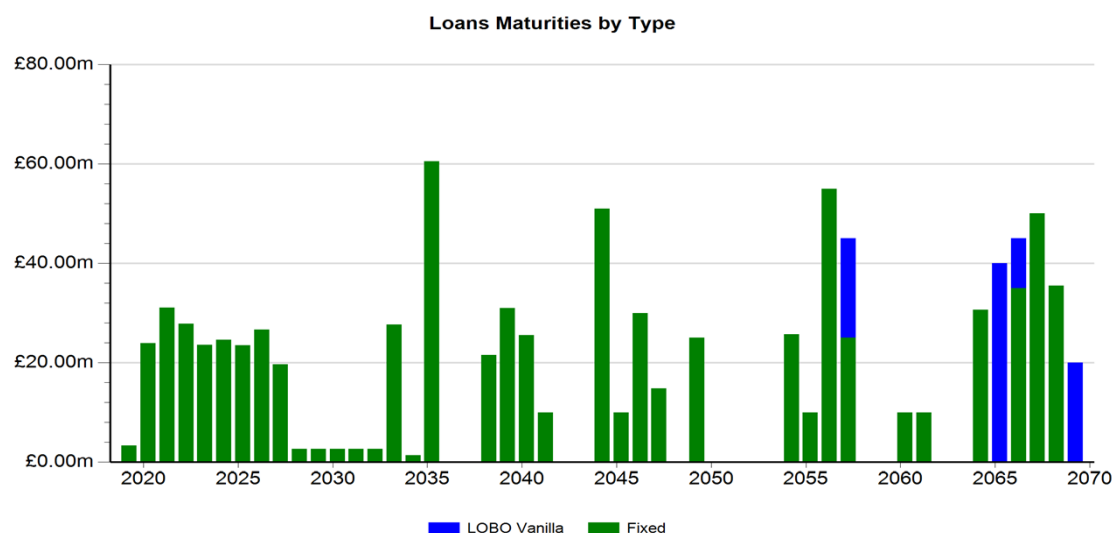
## Treasury Management Report for the month of February 2019

### 1. Borrowing

1.1 The total amount of debt outstanding at the end of February was £908m. The following table shows the borrowing analysed by lender.

	31/3/2018 Balance £m	2018/19 Movement £m	28/02/2019 Balance £m	Average Rate %	Value waited Average Life (yrs)
Public Works Loan Board	472.28	19.66	491.94	5.04%	16.74
Banks (LOBO)	150.00	-60.00	90.00	4.15%	45.05
Banks (Fixed Term)	320.32	5.74	326.06	4.00%	35.88
	<b>942.60</b>	<b>-34.59</b>	<b>908.01</b>	<b>4.58%</b>	<b>26.38</b>

1.2 The maturity profile of KCC's outstanding debt at 28 February was as follows:

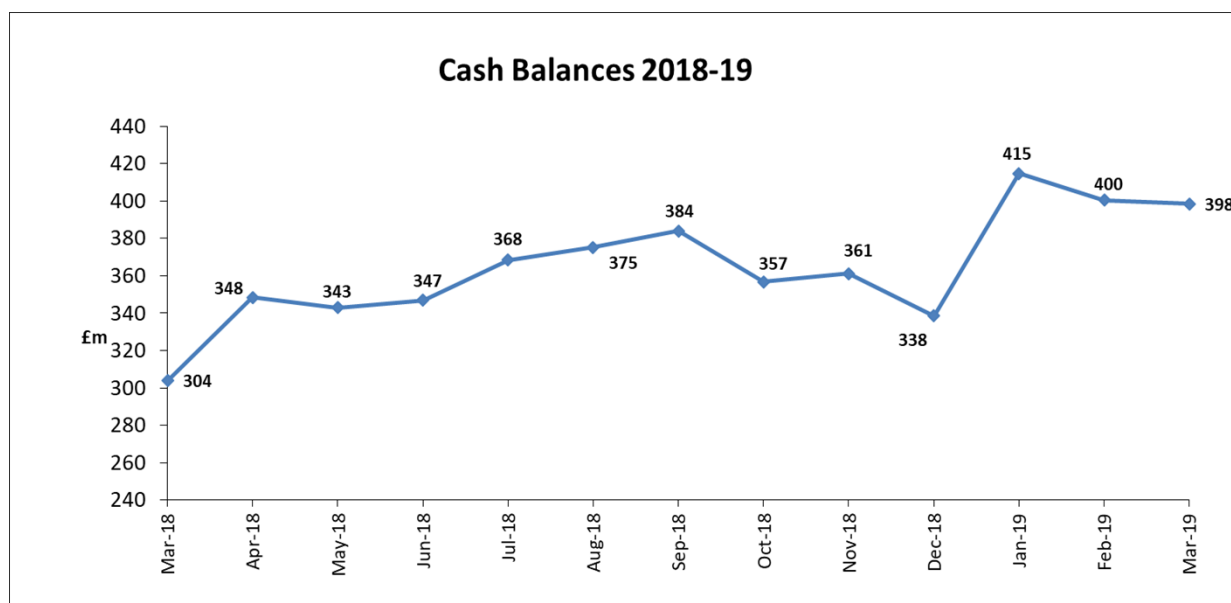


1.3 The Council's strategy continues to be to fund its capital expenditure from internal resources as well as consider borrowing at advantageous points in interest rate cycles. Total long-term debt managed by KCC includes £34.12m pre-LGR debt managed by KCC on behalf of Medway Council and pre-1990 debt managed on behalf of Magistrates Courts (£0.193m).

### 2. Investments

#### 2.1 Cash Balances

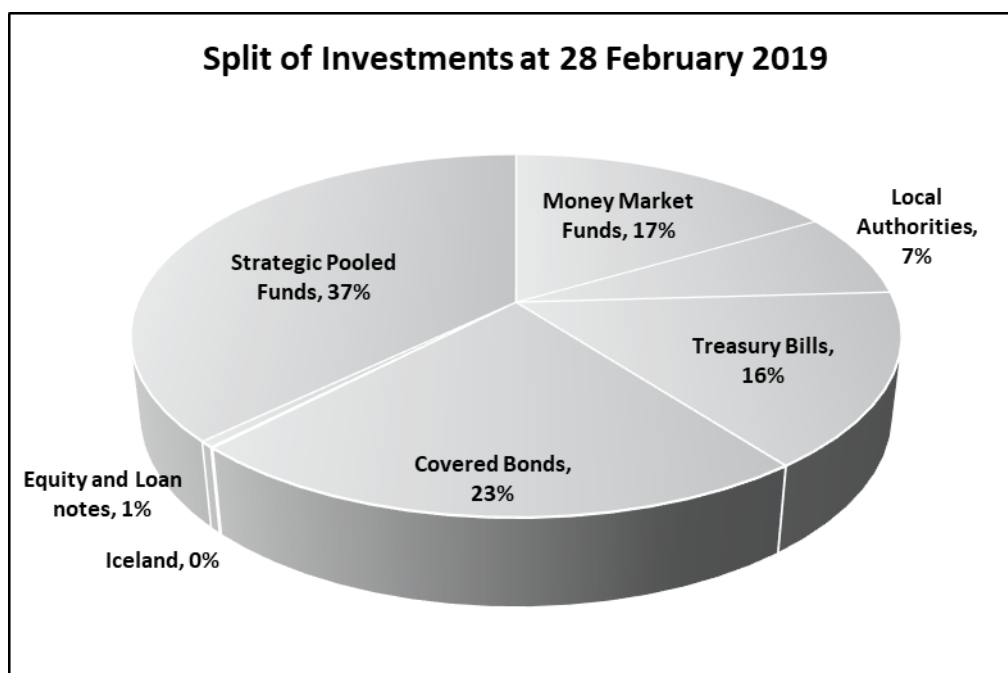
During the month of February, the value of cash under management fell by £15m to £400m. 2018-19 cashflows are forecast per the following graph. During the year the Council's cash balances have increased primarily as the result of the receipt of £100m capital grants offset by the net outflow in respect of the LOBOs prepayment of £33m.



## 2.2 Type of investment at month end

At the end of February the value of KCC's investments was £401m of which £149m, 37%, was invested in strategic pooled funds.

	31 March 2018	2018/2019	28 February 2019		
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Money Market Funds	79.80	-13.30	66.50	0.61	AA-
Local Authorities	17.10	12.90	30.00	0.93	AA-
Treasury Bills		62.35	62.35	0.72	AA
Covered Bonds	64.50	25.89	90.39	1.19	AA+
Icelandic Recoveries o/s	0.37	0.00	0.37		
Equity	2.14	0.00	2.14		
<b>Internally managed cash</b>	<b>163.90</b>	<b>87.84</b>	<b>251.75</b>	<b>0.89</b>	<b>AA</b>
Strategic Pooled Fund	113.80	35.23	149.03	3.72	
Cashplus / Short term Bond Funds	20.00	-20.00	0.00		
<b>External Investments</b>	<b>133.80</b>	<b>15.23</b>	<b>149.03</b>	<b>3.72</b>	
<b>Total</b>	<b>297.70</b>	<b>103.07</b>	<b>400.78</b>	<b>2.12</b>	

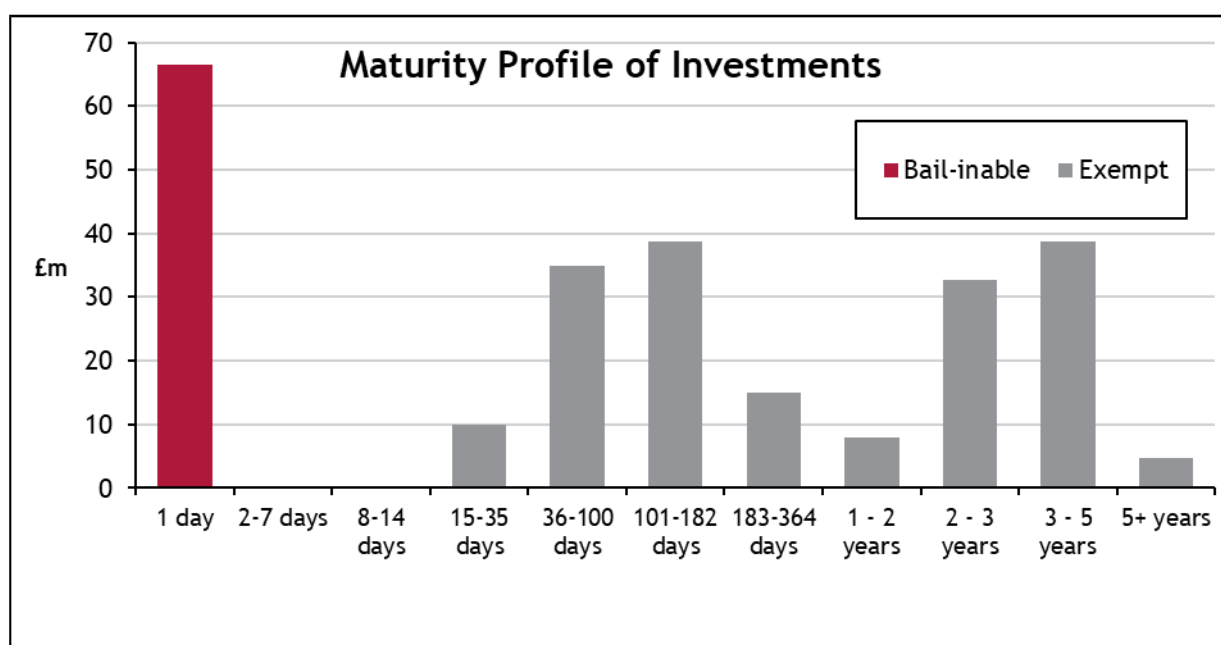


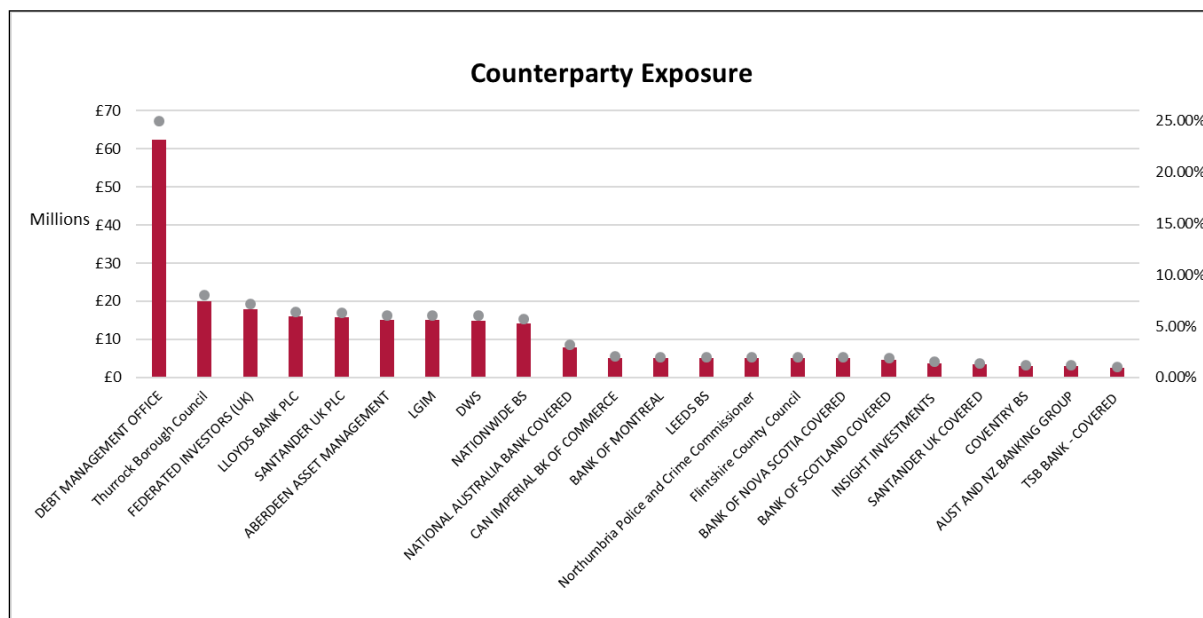
A detailed listing of investments at 28 February is at appendix A.

## 2.3 Internally managed cash

2.3.1 The rate of return on investments held at month end was 0.89% vs the target return 7-day LIBID of 0.5731%.

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





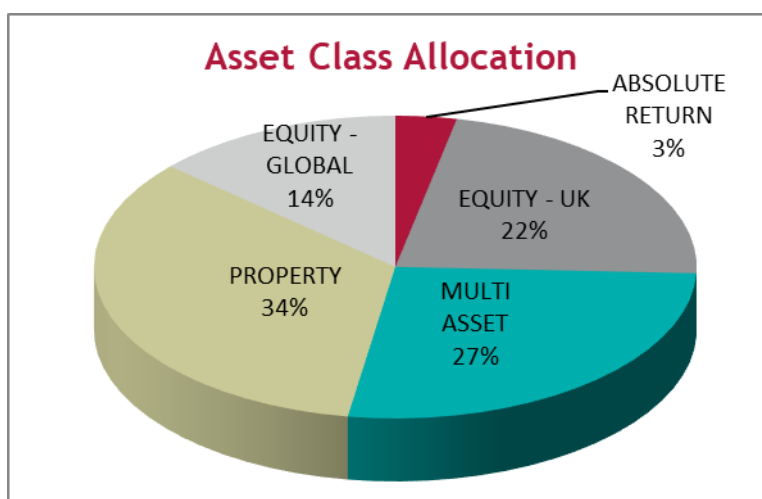
### 2.3.3 Credit Score matrix

The Council's overall credit scores for its internally managed cash are detailed in the following table.

	Credit Rating	Credit Risk Score
Value Weighted Average	AA	2.8
Time Weighted Average	AAA	1.2

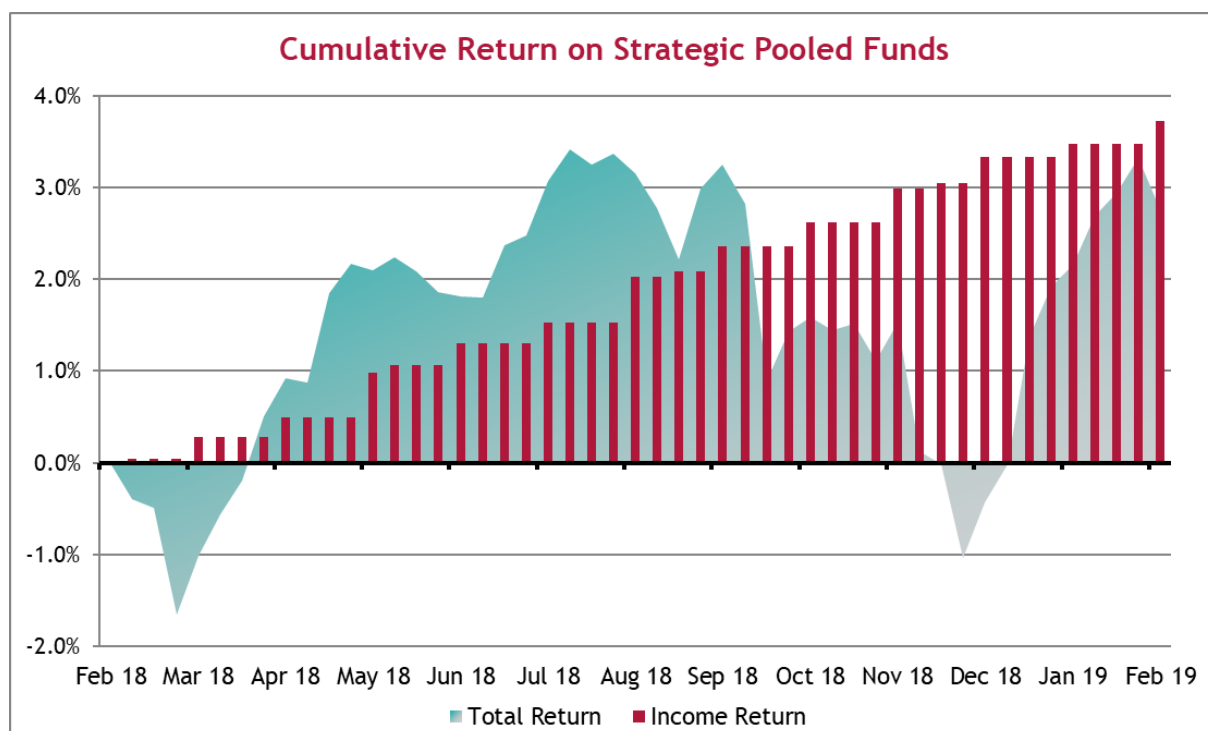
## 3. Strategic Pooled Funds

3.1. A breakdown of the strategic pooled funds by asset class is shown in the following chart.



3.2 The following chart tracks the returns earned on the pooled funds over the 12 months to end February 2019.





## 4.0 Financing Items

Financing Items are forecast to underspend in 2018/19 due in part to a £0.5m net increase in investment income.

**Alison Mings**  
**Treasury and Investments Manager**  
**7 March 2019**

## Investments as at 28 February 2019

## 1. Internally Managed Investments

## 1.1 Term deposits and Money Market Funds

Instrument Type	Counterparty	Principal Amount £	Interest Rate	Maturity Date
Fixed Deposit	Flintshire County Council	5,000,000	0.90%	10/04/19
Fixed Deposit	Thurrock Borough Council	10,000,000	0.90%	31/05/19
Fixed Deposit	Thurrock Borough Council	10,000,000	0.95%	30/08/19
Fixed Deposit	Police and Crime Commissioner for Northumbria	5,000,000	0.95%	04/07/19
<b>Total Local Authority Deposits</b>		<b>30,000,000</b>		
Treasury Bill	DMO	9,963,533	0.73%	28/05/19
Treasury Bill	DMO	9,963,732	0.73%	10/06/19
Treasury Bill	DMO	9,986,096	0.66%	25/03/19
Treasury Bill	DMO	9,963,485	0.74%	08/07/19
Treasury Bill	DMO	9,962,495	0.76%	29/07/19
Treasury Bill	DMO	9,981,957	0.73%	29/04/19
Treasury Bill	DMO	2,528,429	0.76%	27/08/19
<b>Total Govt Deposits</b>		<b>62,349,727</b>		
Money Market Fund	Aberdeen Sterling Liquidity Fund	14,990,853	0.42% (variable)	n/a
Money Market Fund	Deutsche Managed Sterling Fund	14,943,748	0.76% (variable)	n/a
Money Market Fund	Federated (PR) Short-term GBP Prime Fund	17,790,926	0.50% (variable)	n/a
Money Market Fund	HSBC Global Liquidity Fund	28,927	0.83% (variable)	n/a
Money Market Fund	Insight Liquidity Funds PLC	3,754,608	0.72% (variable)	n/a
Money Market Fund	LGIM Sterling Liquidity Fund	14,984,700	0.75% (variable)	n/a
Money Market Fund	SSgA GBP Liquidity Fund	8,707	0.71% (variable)	n/a
<b>Total Money Market Funds</b>		<b>66,502,468</b>		
<b>Equity and Loan Notes</b>	Kent PFI (Holdings) Ltd	<b>£2,135,741</b>		n/a
<b>Icelandic Recoveries outstanding</b>	Heritable Bank Ltd	<b>£366,905</b>		n/a

## 1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal £	Coupon Rate	Maturity Date
Floating Rate Covered Bond	Australia and New Zealand Banking group	3,000,000	1.39%	24/01/22

Floating Rate Covered Bond	Bank of Montreal	5,005,692	1.18%	17/04/23
Fixed Rate Covered Bond	Bank of Nova Scotia	4,990,619	0.88%	14/09/21
Fixed Rate Covered Bond	Bank of Scotland	4,703,496	1.71%	20/12/24
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce	5,036,629	1.10%	10/01/22
Floating Rate Covered Bond	Coventry Building Society	3,002,592	1.14%	17/03/20
Floating Rate Covered Bond	Leeds Building Society	5,000,000	1.31%	01/10/19
Floating Rate Covered Bond	Lloyds	2,503,113	1.13%	27/03/23
Floating Rate Covered Bond	Lloyds	2,504,153	1.12%	27/03/23
Floating Rate Covered Bond	Lloyds	4,500,000	1.31%	14/01/22
Floating Rate Covered Bond	Lloyds	1,400,682	1.13%	18/07/19
Floating Rate Covered Bond	Lloyds	5,007,335	1.12%	27/03/23
Fixed Rate Covered Bond	National Australia Bank	3,001,889	1.10%	10/11/21
Fixed Rate Covered Bond	National Australia Bank	4,971,050	1.35%	10/11/21
Floating Rate Covered Bond	Nationwide Building Society	4,000,000	1.46%	10/01/24
Floating Rate Covered Bond	Nationwide Building Society	4,505,119	1.15%	12/04/23
Floating Rate Covered Bond	Nationwide Building Society	5,588,223	1.14%	12/04/23
Fixed Rate Covered Bond	Santander UK	3,397,332	0.65%	14/04/21
Floating Rate Covered Bond	Santander UK	3,752,281	1.11%	13/04/21
Floating Rate Covered Bond	Santander UK	5,003,249	1.08%	16/11/22
Floating Rate Covered Bond	Santander UK	5,008,721	1.04%	05/05/20
Floating Rate Covered Bond	Santander UK	2,003,372	1.40%	12/02/24
Floating Rate Covered Bond	TSB	2,504,200	1.54%	15/02/24
<b>Total Bonds</b>		<b>90,389,747</b>		

<b>Total Internally managed investments</b>	<b>£251,744,587</b>
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## 2. Externally Managed Investments

Investment Fund	Book Cost £	Market Value at 28 February 2019 £	12 months return to 28 February 2019	
			Income %	Total %
CCLA - Diversified Income Fund	5,000,000	4,974,577	1.58	1.07
CCLA – LAMIT Property Fund	50,000,000	50,913,644	3.45	3.34

Fidelity Multi Asset Income Fund	25,000,000	24,776,708	3.58	2.89
Kames Diversified Monthly Income Fund	10,000,000	10,356,392	0.75	4.32
M&G Global Dividend Fund	10,000,000	10,467,488	3.03	3.77
Pyrford Global Total Return Sterling Fund	5,000,000	4,890,243	2.20	1.87
Schroder Income Maximiser Fund	25,000,000	23,720,946	6.18	2.15
Threadneedle Global Equity Income Fund	10,000,000	9,598,662	2.97	-0.41
Threadneedle UK Equity Income Fund	10,000,000	9,330,257	4.08	2.91
<b>Total External Investments</b>	<b>150,000,000</b>	<b>149,028,917</b>	<b>3.72</b>	<b>2.76</b>

### 3. Total Investments

<b>Total Investments</b>	<b>£400,773,503</b>
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By: Peter Oakford - Deputy Leader and Cabinet Member for  
Finance and Traded Services  
Cath Head - Head of Finance (Operations)

To: Governance and Audit Committee – 24 April 2019

Subject: Revised Accounting Policies

Classification: Unrestricted

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Summary: This report asks Members to approve the revised  
accounting policies.

## FOR INFORMATION AND DECISION

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1. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".
2. This year, amendments and revisions are needed in respect of the adoption of IFRS 15 – Revenue from Contracts with Service Recipients and IFRS 9 – Financial Instruments

### i) IFRS 15 – Revenue from Contracts with Service Recipients

The adoption of this standard requires an amendment to the accounting policy for Accruals of Income and Expenditure. This is a new requirement for the 2018-19 statement of accounts and the amendment is derived from the Code of Practice Guidance Notes prepared by the Chartered Institute of Public Finance Accountants (CIPFA).

For the full accounting policy see Appendix 1.

### ii) IFRS 9 – Financial Instruments

IFRS 9 – Financial Instruments is to be adopted for 2018-19. The adoption of this standard requires a new accounting policy for financial instruments, specifically financial assets. This is a new requirement for the 2018-19 statement of accounts and therefore the new accounting policy has been drafted, derived from the Code of Practice Guidance Notes prepared by the Chartered Institute of Public Finance Accountants (CIPFA).

For the full accounting policy see Appendix 2.

## 4. Recommendation

- 4.1 Members are asked to approve the additions and amendments to the accounting policies as presented.

**Cath Head**  
**Head of Finance Operations**  
**Ext: 416934**

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

## **Appendix 1 IFRS 15 – Revenue from Contracts with Service Recipients**

### **Accounting Policy**

*Included in Note 2. General Accounting Policies (where there is no accompanying note)*

### **Accruals of Income and Expenditure**

~~Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:~~

~~- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.~~

~~Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:~~

~~- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.~~

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## **Appendix 2 IFRS 9 – Financial Instruments**

### **Accounting Policy**

#### **Financial assets**

~~Financial assets are held under the following three classifications:~~

- ~~– loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market~~
- ~~– available-for-sale financial assets – assets that have a quoted market price~~
- ~~– unquoted equity investments held at cost because it is impracticable to determine fair value~~

#### **Loans and Receivables**

~~Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.~~

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.~~

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

~~Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.~~

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

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

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

~~Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation). \_\_\_\_\_~~

~~Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. \_\_\_\_\_~~

~~Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses). \_\_\_\_\_~~

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at: \_\_\_\_\_

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take a form of a basic debt instrument).

#### Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains or losses that arise from on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

#### Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost and fair value through other comprehensive income, either on a 12 month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligation. Credit risk plays a crucial factor in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12 month expected losses.

#### Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices - market price.
- other instruments with fixed and determinable payments - discounted cash flow analysis.

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

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

Any gains or losses that arise from on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

#### Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets measured at fair value through other comprehensive income are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at fair value. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Fair value gains or losses are recognised and posted to Other Comprehensive Income and Expenditure and held in the Financial Instruments Revaluation Reserve until written out of derecognition or maturity. Fair value measurements and techniques are set out in the accounting policy on page xx and referred to in Financial Assets Measured at Fair Value through Profit and Loss.

Movements in impairment loss allowances are debited/credited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement with the compensating credit/debit against Other Comprehensive Income and Expenditure to offset movements against gains/losses on fair value.

Cumulative gains/losses on fair value are transferred to the Surplus or Deficit on the Provision of Services on derecognition.

#### Investments in Equity Instruments designated to Fair Value through Other Comprehensive Income

Investments in Equity Instruments designated to fair value through other comprehensive income because they are neither held for trading nor contingent consideration recognised by the acquirer in a business combination to which IFRS 3 applies. They are not considered puttable instruments because the Council does not have a contractual right to put the instrument back to the issuer for cash.

The investments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at fair value. Dividend income is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Fair value gains or losses are recognised and posted to Other Comprehensive Income and Expenditure and held in the Financial Instruments Revaluation Reserve until written out of derecognition or maturity. Fair value measurements and techniques are set out in the accounting policy on page xx and referred to in Financial Assets Measured at Fair Value through Profit and Loss.

Cumulative gains/losses on fair value are transferred to the General Fund Balance on derecognition.

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By: Peter Oakford, Deputy Leader and Cabinet Member for Finance and Traded Services  
Zena Cooke, Corporate Director of Finance

To: Governance and Audit Committee – 24<sup>th</sup> April 2019

Subject: **External Audit – Update and Audit Plans for Kent County Council and Kent Superannuation Fund 2018/19**

Classification: Unrestricted

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**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 2018/19 financial statements including the Kent Superannuation Fund. It also incorporates update issues for the Committee.

## **FOR DECISION**

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### **Introduction and background**

1. 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 2018/19
  - 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 2018/19.

**Robert Patterson**  
**Head of Internal Audit**  
**03000 416554**



# Audit Progress Report and Sector Update

Kent County Council  
Year ending 31 March 2019  
Page 177  
April 2019



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# Introduction



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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)

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

[www.grantthornton.co.uk](http://www.grantthornton.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 2019

## Financial Statements Audit

We have completed the planning for the 2018/19 financial statements audit for both the Authority and the Pension Fund and have issued a detailed audit plan, setting out our proposed approach to the audit of the Council's and Fund's 2018/19 financial statements.

We have also carried out our interim audit. This included:

- Updated review of the Council's and Fund'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, on operating expenses, payroll, other revenue, journals, transactions within Commercial Services, and Pension Fund member data
- Confirming details of banks and investment managers.

There are currently no issues to report.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We will discuss our plan and timetable with officers.

The final accounts audit is due to begin in June with findings reported to you in the Audit Findings Report by the deadline of July 2019.

## 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 will make our initial risk assessment to determine our approach in January and March and report this to you as part of our Audit Planning Report at the April 2019 Governance and Audit Committee.

We will report our work in the Audit Findings Report at the July Governance and Audit Committee.

## Other areas

### Meetings

We met with Finance Officers in February as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Director Corporate Finance in November to discuss the Council's strategic priorities and plans.

### Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our latest event was the Chef Accountants workshop held in February.

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

2018/19 Deliverables	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2018	Complete
<b>Accounts Audit Plan</b> 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 2018-19 financial statements.	April 2019	Complete
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Complete
<b>Audit Findings Report</b> The Audit Findings Report will be reported to the July Governance and Audit Committee.	July 2019	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Not yet due
<b>Annual Certification Letter</b> This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Not yet due

# Sector Update

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 local government 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 by clicking on the logos below:

Public Sector

Local  
government

# Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

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.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

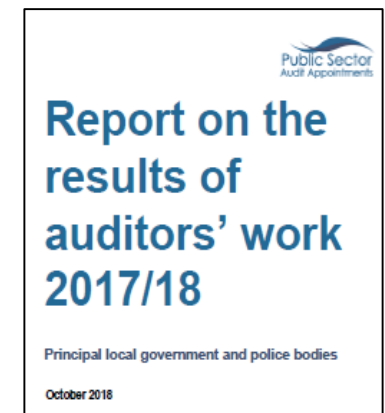
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

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



# National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

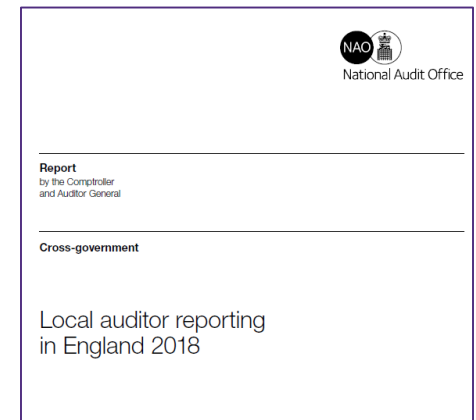
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>





# National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

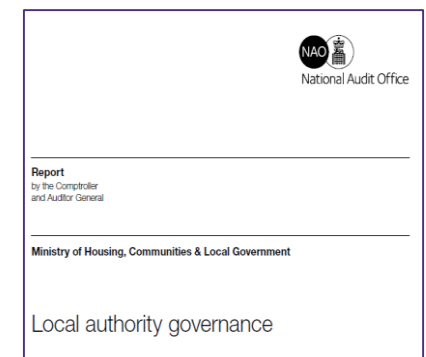
Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



# CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

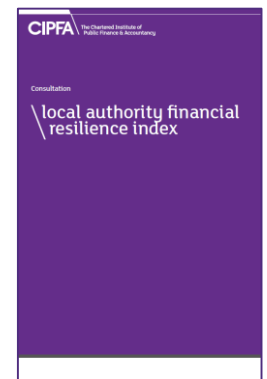
The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



# ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the 'expectation gap' in the external audit of public bodies.

## Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

## What's the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports:** 'The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money'
- **Other powers and duties:** implementing public interest reports in addition to VFM
- **Restricted role of questions and objections:** Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance:** 'if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance'
- **Audit committees not consistently effective:** Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees:** firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules:** new independence rules don't allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**

- **Increased auditor liability:** an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

## Future financial viability of local public bodies

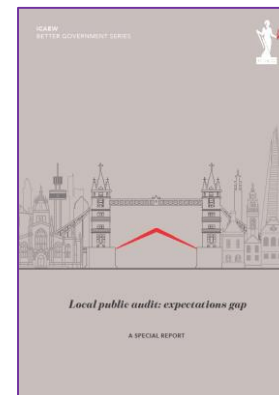
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

## The ICAEW puts forward two solutions:

**Solution a)** If CFO's want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

**Solution b)** Wider profession (IFAC, IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



# Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies.

Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

## Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

## Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

## Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

## Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

**Your organisation** – including considerations on workforce, funding, and changes to legislation

**Your services and suppliers** – ensuring that critical services are protected and building resilience within supply chains

**Your place** – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

<https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/>

# MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

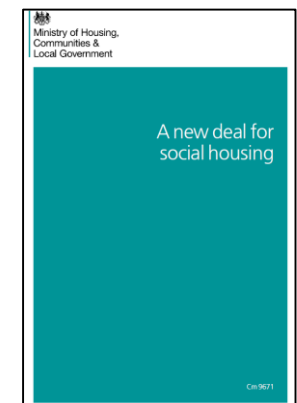
The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>



# Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

## Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

## Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

## The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.





# National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

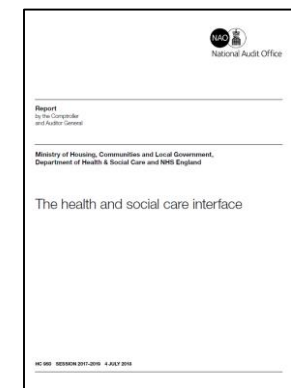
**Financial challenges** – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

**Culture and structure** – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

**Strategic issues** – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:  
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>



# A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

## Scoping Sprint (Oct 2018)

Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council) the subsequent debate identified three themes for Grant Thornton to take forward:

1. Ethics and philosophy: What is meant by care? Should the state love?

2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

## Sprint 1 – What do we really mean by 'Care'? (Dec 2018)

Julia Unwin, Chair of the Civil Societies Futures Project, and Sam Newman of Partners4Change sparked debate on why we need society to be brave enough to talk about care and the different levels at which 'care' can be applied to create a Caring Society.

## Sprint 2 – A new role for the state? (7 Feb 2019)

Donna Hall, CEO of Wigan Council and Andrew of Reform, will start the debate on how can the state – nationally and locally – develop and adapt itself to be in service to a caring society.

### To find out more or get involved:

- Join the conversation at #acaringssociety
- [Why we need to create a caring society](#)
- [Creating a caring society – the start of the debate](#) – the key themes from our first round table
- [Social care must take the starring role in its own story](#) – why the definition of social care is so important if the system is to change
- [Markets, trust & governance](#) – how social care can evolve to become a driver of local care economies
- [The future care leader](#) – Fiona Connolly, director of adult social care at Lambeth, discusses the importance of local care leaders working across the entire health system





# Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



# In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

## Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

## Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

## Choosing the right company model

The most common company models adopted by councils are:

Wholly  
owned

Joint  
Ventures

Social  
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

## Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

## LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

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# Links

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## Grant Thornton website links

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

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

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

## National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

## Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/728722/BRR\\_Pilots\\_19-20\\_Prospectus.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf)

## Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

## Public Sector Audit Appointments

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



# External Audit Plan

*Year ending 31 March 2019*

Kent County Council  
Kent County Council Superannuation Fund  
April 2019



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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 Authority and Fund or all 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

## Our Team



### **Paul Dossett, Engagement Lead**

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Authority.



### **Tina James, Audit Manager for Kent County Council and Pension Fund**

Responsible for overall audit management, quality assurance of audit work and output and liaison with the Authority.



### **Andy Conlan, Audit Manager for Kent County Council**

Responsible for overall audit management, quality assurance of audit work and output and liaison with the Authority.



### **Nicholas Burton, Audit Incharge**

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

## Purpose

This document provides an overview of the planned scope and timing of the statutory audits of Kent County Council ('the Authority') and the Kent County Council 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 out 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 the Authority and the Fund. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audits

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 :

- Authority and Fund's financial statements that have been prepared by management with the oversight of those charged with governance, the Governance and Audit Committee; and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

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

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

# Headlines

<div>Page 200</div> <div>Significant risks</div>	<p>Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:</p> <p><b>Kent County Council</b></p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation of property, plant and equipment</li> <li>• Valuation of pension fund net liability</li> <li>• Valuation, classification and ownership of investments</li> </ul> <p><b>Kent County Council Superannuation Fund</b></p> <ul style="list-style-type: none"> <li>• Management override of controls</li> <li>• Valuation, classification and ownership of investments</li> </ul> <p>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.</p>
<div>Materiality - Authority</div>	<p>We have determined planning materiality to be £43m (PY £44m) for the Authority, which equates to 1.95% of your prior year 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 £2.15m (PY £2.2m).</p>
<div>Materiality – Pension Fund</div>	<p>We have determined materiality at the planning stage of our audit to be £58m (PY £52m) for the Fund, which equates to 1% of your net assets for the year.</p> <p>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 £2.9m (PY £2.9m).</p>
<div>Value for Money arrangements (Authority Only)</div>	<p>Our risk assessment regarding the Authority's arrangements to secure value for money have identified the following VFM significant risks:</p> <ul style="list-style-type: none"> <li>• Overall Financial Position – Medium Term Financial Plan</li> <li>• Brexit</li> <li>• Subsidiaries</li> </ul>
<div>Audit logistics</div>	<p>Our interim visits took place in February and March and our final visits will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report.</p> <p>Our fee for the audit will be £120,062 (PY: £155,925) for the Authority and £23,537 (PY: £30,568) for the Fund, subject to management meeting our requirements set out on page 13.</p>
<div>Independence</div>	<p>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..</p>



# Key matters impacting our audit of the Authority

## External Factors

### The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. Kent County Council has an excellent track record of budgetary discipline, but the task of staying in budget will be increasingly challenging and you have increased council tax by 2.99% as part of your Medium Term Financial Plan. At November 2018, the Authority was forecasting an overspend of £1.9m but expected to reduce this by the end of the year

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

### Brexit

On 29 March 2019, the United Kingdom (UK) is set to leave the European Union (EU).

The impact of this is uncertain and has the potential to affect a number of areas relevant to the Authority including staffing, investment valuations and property valuations.

### Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of:

- IFRS 9 Financial Instruments which impacts on the classification and measurement of financial assets and introduces a new impairment model.
- IFRS 15 Revenue from Contracts with Customers which introduces a five step approach to revenue recognition.

The impact from both is being assessed by the authority.

## Internal Factors

### Local issues

A significant portion of the Authority's finance, IT and HR functions were transferred into a new subsidiary in the year, Cantium Business Solutions.

From 1 September 2018, certain education services were transferred to another new subsidiary, EDSECO Ltd (The Education People), to provide services to Kent schools on behalf of the Authority, as well as traded services.

## 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 material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

- We will discuss preparations with the client and their assessment of the risk
- We will consider the impact on property and investments valuations as part of our significant risk assessments
- We will review any related disclosures in the financial statements and Annual Report to ensure these are sufficient.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 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 2018/19 CIPFA Code.

- We will review the assessment on whether consolidated group accounts are required with the new subsidiaries.
- We will obtain and review the contracts with the new subsidiaries as new service organisations.
- Although the said functions are now operated by subsidiaries, we will still ensure we understand the processes and controls as they relate to the Authority and Pension Fund.

# Key matters impacting our audit of the Fund

External Factors		Internal Factors	
<b>SI 493/2018 – LGPS (Amendment) Regulations 2018</b>	<b>Changes to the CIPFA 2018/19 Accounting Code</b>	<b>Brexit</b>	<b>Local issues</b>
<p>Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.</p> <p><b>Guaranteed Minimum Pension (GMP)</b></p> <ul style="list-style-type: none"> <li>Pension funds are continuing to work through the GMP reconciliation process.</li> <li>In January 2018 the government extended its “interim solution” for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.</li> </ul>	<p>The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as fair value through profit and loss.</p> <p>The Authority is reviewing the classification and accounting treatment of investments in light of the change in the standards.</p> <p><b>The Pensions Regulator (tPR)</b></p> <p>tPRs <a href="#">Corporate Plan</a> for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.</p>	<p>On 29 March 2019, the United Kingdom (UK) is set to leave the European Union (EU).</p> <p>The impact of this is uncertain and has the potential to affect the valuations of investments held by the Fund.</p>	<p><b>Pooling</b></p> <p>The ACCESS pool was launched with the first sub-fund in November 2018, after years of preparation. The Kent Superannuation Fund joined the next sub-funds in January and February 2019 with £2.5bn. The Fund anticipates adding to this over time.</p>
Our response			
<ul style="list-style-type: none"> <li>We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.</li> </ul>	<ul style="list-style-type: none"> <li>We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.</li> <li>As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.</li> <li>We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.</li> </ul>	<ul style="list-style-type: none"> <li>We will consider the impact on investments valuations as part of our significant risk assessment</li> <li>We will review any related disclosures in the financial statements to ensure these are sufficient</li> </ul>	<ul style="list-style-type: none"> <li>We consider the transfer of assets to the pool as part of our significant risk in regard to investments and we will tailor our approach to gain assurance over the completeness and accuracy of the transactions, and the year end valuations.</li> </ul>

# Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>The revenue cycle includes fraudulent transactions</b>	Authority & Fund	<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 and the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk.</p>	
<b>Management over-ride of controls</b>	Authority & Fund	<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. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore consider management over-ride of controls, in particular journals, management estimates and transactions outside the normal course of business as a significant risk requiring special audit consideration.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions</li> </ul>

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of property, plant and equipment</b>	Authority	<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"> <li>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</li> <li>Evaluate the competence, expertise and objectivity of any management experts used.</li> <li>Discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions.</li> <li>Review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>Test revaluations made during the year to ensure they are input correctly into the Authority's asset register</li> <li>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</li> <li>Consider the implications of Brexit on the valuations of the Authority's asset portfolio</li> </ul>
<b>Valuation of pension fund net liability</b>	Authority	<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"> <li>Identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>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</li> <li>assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>Undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>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</li> <li>Consider the implications of Brexit on the valuations related to the fund's asset portfolio</li> </ul>

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 Report in July 2019.

# Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation, classification and ownership of investments	Fund / Authority	<p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.</p> <p>Investments held by both the Authority and the Pension Fund are often complex and require judgment. Level 3 investments by their very nature require a particularly high degree of judgement, but there is risk to reach an appropriate valuation at year end for all the investments,</p> <p>There is also the risk of investments being classified incorrectly due to the accounting requirements changing under the new IFRS 9.</p> <p>With the Pension Fund having moved a portion of its investments into the new ACCESS pool, this creates additional risk.</p>	<p>We will</p> <ul style="list-style-type: none"> <li>gain an understanding of the Fund's process for valuing investments and evaluate the design of the associated controls</li> <li>review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.</li> <li>consideration of the competence, expertise and objectivity of any management experts used.</li> <li>review the qualifications of the Fund Managers to value investments at year end and gain an understanding of how the valuation of these investments has been reached.</li> <li>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 2019 with reference to known movements in the intervening period.</li> <li>Assess the Authority's and Fund's policy undertaken in regard to the new accounting standard and ensure all investments are subsequently categorised correctly.</li> <li>We will also carry out the above work particularly in relation to the ACCESS pool to ensure good governance and competent management and that the Fund's investments are correctly identified and valued.</li> <li>Consider the implications of Brexit on the valuations of the Authority's and Fund's investments portfolios</li> </ul>

# Other matters

## Other work

The Fund is administered by the Authority, and the Fund's financial statements form part of the Authority's financial statements.

Therefore, in addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities in respect of the Authority and the Fund, as follows:

- We read the Authority's Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements of the Authority and the Fund on which we give an opinion, and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in the Authority's Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on the Authority's consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- 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.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about the Authority or Fund's 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
  - issue of a report in the public interest or written recommendations to the Authority or Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit of the Authority.

## 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 Authority or the Fund's '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 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.

Matter	Description	Planned audit response
1	<p><b>Calculation and determination</b></p> <p>We have determined planning materiality (financial statement materiality determined at the planning stage of the audit) based on professional judgment in the context of our knowledge of the Authority and the Fund, including consideration of factors such as stakeholder expectations, financial stability and reporting requirements for the financial statements.</p> <p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>– estimate the tolerable level of misstatement in the financial statements</li> <li>– assist in establishing the scope of our audit engagement and audit tests</li> <li>– calculate sample sizes and</li> <li>– assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul>	<ul style="list-style-type: none"> <li>• For the Authority, we have determined 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. Materiality at the planning stage of our audit is £43m (PY £44m) for the Authority, which equates to 1.95% of your prior year gross expenditure for the year.</li> <li>• For the Fund, we have determined financial statement materiality based on a proportion of the Fund's net assets. In the prior year we used the same benchmark. Our materiality at the planning stage is £58m (PY £52m) which equates to 1% of your net assets for the year.</li> </ul>
2	<p><b>Reassessment of materiality</b></p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<ul style="list-style-type: none"> <li>• 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 materiality</li> </ul>
3	<p><b>Matters we will report to the Governance and Audit Committee</b></p> <p>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 Audit Committee any unadjusted misstatements of lesser amounts, 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.</p>	<ul style="list-style-type: none"> <li>• In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.15m (PY £2.2m).</li> <li>• 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 £2.9m (PY £2.9m).</li> <li>• 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.</li> </ul>



# Value for Money arrangements

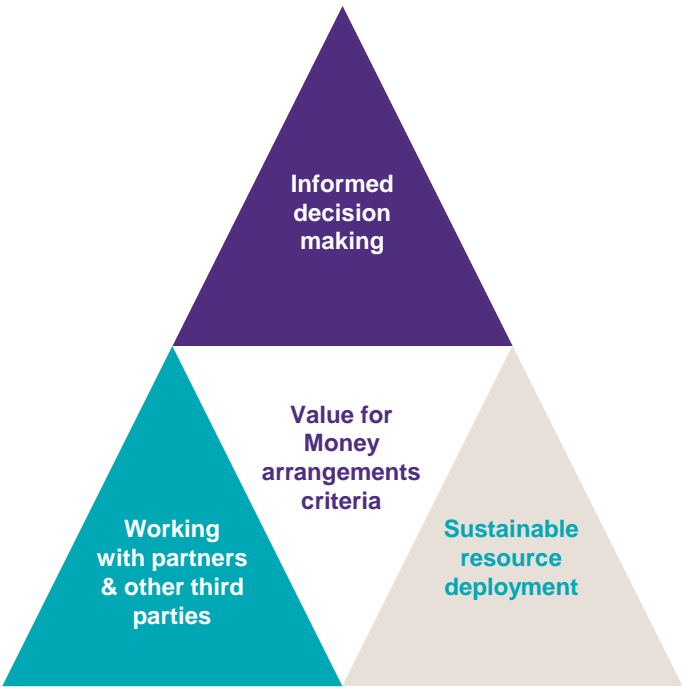
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, excluding Pension Funds, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

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:



## Significant VFM risks

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



### Overall Financial Position – Medium Term Financial Plan

You have a strong track record of delivering to your budgeted spend at the year end. However as reported at Month 8 you were anticipating a outturn deficit pressure of £1.9m for the year. There is a requirement for a considerable level of savings of the life of the Medium Term Financial Plan (MTFP).

In response to this risk we will:

- Review the assumptions behind the latest MTFP
- Review savings plans and revenue generating schemes.
- Discuss your plans and outcomes with management, as well as reviewing how finances are reported to Councillors.



### Brexit

With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on the Authority and which it will need to plan for.

In response to this risk we will:

- Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.



### Subsidiaries

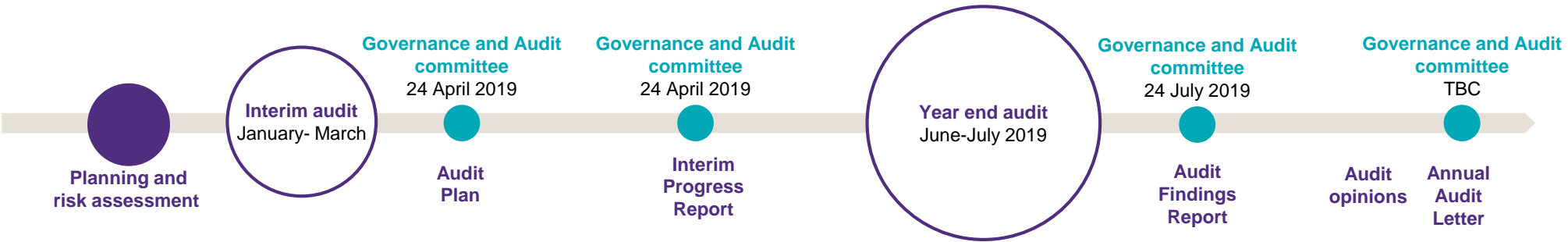
Kent County Council has a number of subsidiaries, including 2 new companies set up in 2018/19. With an increasing level of functions being performed by these bodies, the risk of financial commitments and ongoing support increases if they are not able to generate income to become self sufficient.

In response to this risk we will:

- Review your arrangements to monitor the activities of the subsidiaries



# Audit logistics & fees



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## Audit fees

The planned audit fees are £120,062 (PY: £155,925) for the financial statements audit of the Authority, and £23,537 (PY: £30,568k) for the financial statements audit of the Fund, completed under the Code, which are inline with the scale fees published by PSAA. In setting your fee, we have assumed that the scope of the audits, and the Authority and Fund and its activities, do not significantly change.

Where we are required to respond to requests 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.

Any proposed fee variations will need to be approved by PSAA.

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# 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.

We confirm that we have implemented policies and procedures to meet the requirements of 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 2017 which set out supplementary guidance on ethical requirements for auditors of local public bodies.

# Independence & non-audit services

## Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority and the Fund. The following other services were identified:

Service	£	Threats	Safeguards
<b>Non - audit related</b>			
Teachers Pensions Return certification work	£4,250	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 £4,250 in comparison to the total fee for the audit of the authority of £120,062 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 the authority of £120,062 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.
RG Grant certification work	2,500	Self-Interest	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 quoted at £2,500 in comparison to the total fee for the audit of the authority of £120,062 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
ACCESS admin fee review (Pension Fund)	nil		There is no fee attached to this piece of work and as such taken on its own is not considered a significant threat to independence. Further, there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
<b>Audit related</b>			
Resolution of objections to the 2015-16 statutory accounts	£29,218	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 £42,780 (fees relating to 2017-18 objection resolution yet to be confirmed) in comparison to the total fee for the audit of the authority of £120,062 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	£13,490	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 2018-19 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.

# Audit approach

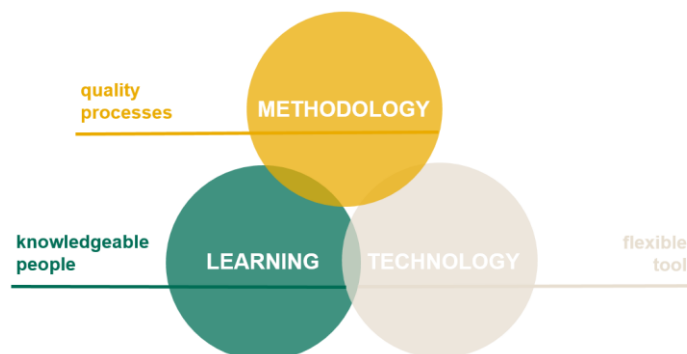
## Use of audit, data interrogation and analytics software

### LEAP



#### Audit methodology

- A globally developed ISA-aligned methodology that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses



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### IDEA



- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

### Appian



#### Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

### Inflo



Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring



#### ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment



#### VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers



#### INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs



#### FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons



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By: Peter Oakford, Deputy Leader and Cabinet Member for  
Finance and Traded Services  
Cath Head, Head of Finance (Operations)

To: Governance and Audit Committee – 24 April 2019

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.

**Cath Head**  
**Head of Finance Operations**  
03000 416934



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

Year ended 31 March 2019

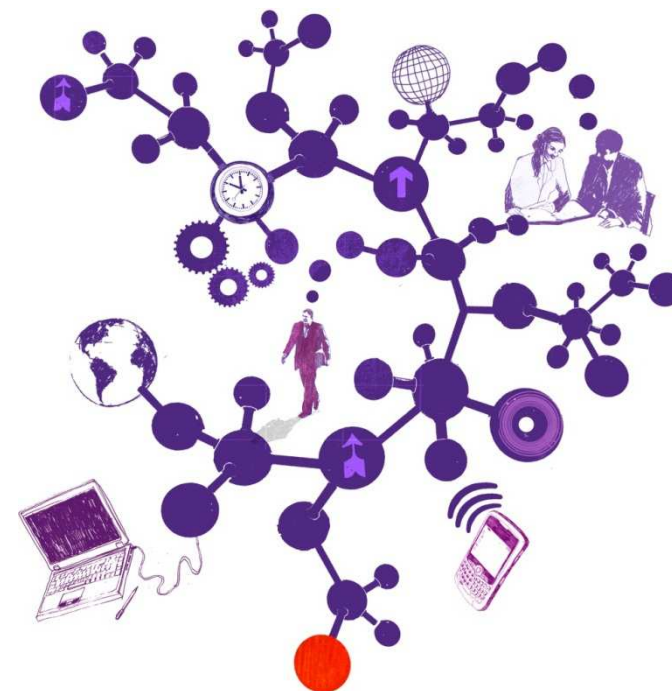
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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) (ISAs (UK)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISAs (UK) 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)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
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	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, key service 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.
What processes does the Council have in place to identify and respond to risks of fraud?	<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 18/19 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 18/19 the Council continued to play a leading role in the MHCLG funded Kent Intelligence Network involving data matching with other public bodies. Outcomes highlight potential single person discount and business rate fraud and error which are then investigated by partner District Councils.</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?	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.
Are internal controls, including segregation of duties, in place and operating effectively?  If not, where are the risk areas and what mitigating actions have been taken?	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.
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)?	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.

# Fraud risk assessment

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Question	Management response
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	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.
How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?	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.
What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?	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
How has the Council ensured that the Governance and Audit Committee are made aware of whistle-blower tips or complaints?	<p>There remain cases that are still subject to investigation which have yet to be reported. The Head of Internal Audit has provided assurance that the circumstances of these cases would not be considered significant, although until the investigations are complete this cannot be guaranteed. The Committee receives, requests and assesses ad-hoc and routine assurance reports on:</p> <ul style="list-style-type: none"> <li>• Complaints (including those referred to the Ombudsman)</li> <li>• Surveillance activities</li> <li>• Debt recovery and management</li> <li>• Treasury management</li> <li>• Insurance activities</li> </ul> <p>In July 2019, 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 integrated governance 'health check' reporting process to the Governance &amp; Audit Committee.</p>

# Fraud risk assessment

Question	Management response
How does the Council communicate and encourage ethical behaviour of its staff and contractors?	<p>The council has a suite of policies and processes in place to communicate and encourage ethical behaviour from its staff and contractors including (but not limited to) the:</p> <p>Kent Code</p> <p>Bribery Act Policy</p> <p>Anti-Fraud and Corruption Policy</p> <p>Whistleblowing policy</p> <p>These policies are available for all staff to view on Knet. They are signposted to new staff during their induction. There are also regular reminders issued via Kmail.</p> <p>In addition, the fraud team delivered on going fraud awareness courses and campaigns which promoted ethical behaviour.</p>
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	<p>Staff are encouraged to report concerns of fraud through the council's policies and its management. The fraud team also encourage staff to report concerns through a programme of fraud awareness activity. The team also promotes and manages the whistleblowing helpline.</p> <p>In 2018/19 the counter fraud team built on previous awareness campaigns by delivering tailored training to a number of departments, establishments and schools.</p>
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	<p>No. Employees and Members are required to declare any conflicts of interests as well as any gifts and hospitalities. This is then checked against payments made, from and to any interested party.</p>
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 2018?	<p>Yes and any such incidents have been investigated and reported to management and the Governance and Audit Committee. None of the incidents would be considered financially material.</p>



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# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK)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 &amp; 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>Regular discussions have been held at CMT and Extended CMT around legal and regulatory issues throughout the year. Similarly, the General Counsel is now regularly asked to support Corporate Directors and the Executive Members in providing timely advice on legal and regulatory issues.</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 General Counsel role sits on the council's Corporate Management Team, Corporate Board and advises the Governance and Audit 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

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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, Law and Democracy 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 2018, or earlier with an on-going impact on the 2018/19 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)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. Forecasts are robustly monitored and challenged to mitigate any potential 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. We work closely with central Government to influence funding decisions wherever possible.
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 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

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Question	Management response
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes, including in the Medium Term Financial Plan, and regular monitoring reports.
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).	Not of any significance.
Does a review of available financial information identify any adverse financial indicators including negative cash flow?  If so, what action is being taken to improve financial performance?	No.
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?  If not, what action is being taken to obtain those skills?	Yes, and training is regularly offered to support managers.



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By: Peter Oakford, Deputy Leader and Cabinet Member for Finance and Traded Services  
Cath Head, Head of Finance (Operations)

To: Governance and Audit Committee – 24 April 2019

Subject: Performance of KCC wholly owned companies

Classification: Unrestricted

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Summary: To present the performance of KCC wholly owned companies for 2017-18.

## **FOR ASSURANCE**

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### **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 link to the latest Statutory Accounts for these companies (for 2017-18) is included as an appendix to the report should the Members wish to review and consider them. The link is [Statutory accounts for KCC wholly owned companies](#)
- 1.3 It is only possible to report on the 2017-18 financial performance as the 2018-19 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 2017-18 of KCC traded activities managed by Commercial Services (Kent) Limited, as shown in Note 34 of KCC's Statement of Accounts.

**Table 1:**

	<b>Turnover</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
KCS - education and office supplies	49,843	46,859	2,984
Brokerage services	233,115	231,389	1,726
Direct Services	1,076	1,032	44
<b>Results for the year ended 31 March 2018</b>	<b>284,034</b>	<b>279,280</b>	<b>4,754</b>
Gain on disposal of Fixed Assets			50
Contribution to Trading Account			-223
Dividend – passed through from Commercial Services Kent Ltd			500
<b>Total Contribution to KCC y/e 31/3/18</b>			<b>5,081</b>

2.2 For comparator purposes the 2016-17 results are shown in Table 2 below:

**Table 2:**

	<b>Turnover</b>	<b>Expenditure</b>	<b>Surplus/ (deficit)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
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
<b>Results for the year ended 31 March 2017</b>	<b>297,286</b>	<b>292,792</b>	<b>4,494</b>
Gain on disposal of Fixed Assets			53
Contribution from reserves			1,626
Dividend – passed through from Kent Top Temps			1,300
<b>Total Contribution to KCC y/e 31/3/17</b>			<b>7,473</b>

- 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 £5,081k for 2017-18 which was recognised in the Council's accounts as a debtor.

- 2.5 Table 3 below shows the 2017-18 Commercial Services Legal entity results and for comparator purposes the 2016-17 results are shown in Table 4.

**Table 3:**

**2017-18 Commercial Services Legal entity results**

	<b>Turnover</b>	<b>Expenditure including interest and tax</b>	<b>Surplus/ (Loss) after tax</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Commercial Services Kent Limited	41,334	40,737	597
Commercial Services Trading Limited	17,327	17,646	(319)
Kent Top Temps Limited		-	-

**Table 4:**

**2016-2017 Commercial Services Legal entity results**

	<b>Turnover</b>	<b>Expenditure including interest and tax</b>	<b>Surplus/ (Loss) after tax</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Commercial Services Kent Limited	51,235	50,375	860
Commercial Services Trading Limited	20,745	20,735	10
Kent Top Temps Limited		(1)	1

- 2.6 Kent Top Temps ceased trading in December 2013 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 Commercial Services Kent Ltd declared a dividend payable of £500k which was passed through to the KCC traded activities managed by Commercial Services (Kent) Ltd. (see Table 1).

GEN<sup>2</sup> Property Limited and Invicta Law Limited

- 2.8 Table 5 below shows the 2017-18 GEN<sup>2</sup> Property Limited and Invicta Law Limited results and for comparator purposes the 2016-17 results are shown in Table 6.

**Table 5: 2017-18 results**

	<b>Turnover</b>	<b>Expenditure including interest and tax</b>	<b>Surplus/ (Loss) after tax</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
GEN <sup>2</sup> Property Limited	8,251	7,316	935
Invicta Law Limited	6,968	7,767	(799)

**Table 6: 2016-17 results**

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

- 2.9 GEN2 Property Limited declared a dividend of £620k 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 first year of trading.
- 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**

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By: Peter Oakford, Deputy Leader and Cabinet Member for Finance and Traded Services  
Cath Head, Head of Finance (Operations)

To: Governance and Audit Committee - 24 April 2019

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

Classification: Unrestricted

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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 link to the latest Statutory Accounts for these companies (for 2017-18)- is included as an appendix to the report should the Members' wish to review and consider them. The 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 in which KCC has an interest, including payments made to the entities during 2017-18.

<b>1. Association of Tourist Attractions in Kent Ltd</b>	
<b>Purpose of entity</b>	To promote the interest of tourist attractions of all sizes and kinds throughout Kent.  Company Limited by Guarantee
<b>Level and Nature of Interest</b>	There is no Kent County Council representative on the 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.
<b>Directors on the Board</b>	None
<b>Profit or Surplus / (Deficit)</b>	£835 – accounts as at 31 August 2018
<b>Payment during 2017-18</b>	Nil
<b>2. Aylesham &amp; District Community Workshop Trust Ltd</b>	
<b>Purpose of entity</b>	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.
<b>Level and Nature of Interest</b>	KCC is a Member. Each Member has one vote. There are 9 Trustees.  Liability will not exceed £10.
<b>Directors on the Board</b>	Mr S Manion – KCC Member
<b>Profit or Surplus / (Deficit)</b>	£114,199 – accounts as at 31 March 2019
<b>Payment during 2017-18</b>	£13,539.22 (excluding VAT) – Room hire, training and workshops

<b>3. Visit Kent Ltd</b>	
<b>Purpose of entity</b>	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.
<b>Level and Nature of Interest</b>	KCC is a Member. Each Member has one vote.  Liability is limited to £1.
<b>Directors on the Board</b>	Mr M Dance – KCC Member  Mr D Hughes – KCC Officer
<b>Profit or Surplus / (Deficit)</b>	(£123,279) – accounts as at 31 March 2018
<b>Payment during 2017-18</b>	£288,000.00 (excluding VAT) – Annual contract.
<b>4. Locate in Kent Ltd</b>	
<b>Purpose of entity</b>	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.
<b>Level and Nature of Interest</b>	KCC is a Member. Each Member has one vote.  Liability is limited to £1.
<b>Directors on the Board</b>	Mr M Dance – KCC Member
<b>Profit or Surplus / (Deficit)</b>	(£115,691) – accounts as at 31 March 2018
<b>Payment during 2017-18</b>	£1,016,070.00 (excluding VAT) – EU Funded: Inward Investment Contract

<b>5. Trading Standards South East Ltd</b>	
<b>Purpose of entity</b>	To provide advice to consumers in the south east of England.  Company Limited by Guarantee.
<b>Level and Nature of Interest</b>	KCC is a Member. Each Member has one vote.  Liability is limited to £1.
<b>Directors on the Board</b>	Mrs S Harvey – KCC Officer
<b>Profit or Surplus / (Deficit)</b>	(£351,962) – accounts as at 31 March 2018
<b>Payment during 2017-18</b>	£19,210.00 (excluding VAT) – Membership fees and training.
<b>6. East Kent Spatial Development Company</b>	
<b>Purpose of entity</b>	A regeneration company specialising in the provision of utilities infrastructure to the business parks in East Kent.  Company Limited by Guarantee.
<b>Level and Nature of Interest</b>	KCC is a Class A Member. Each Class A Member has one vote.  Liability is limited to £1.  Locate in Kent is also a Member which KCC has an interest in.
<b>Directors on the Board</b>	Mr M Dance – KCC Member
<b>Profit or Surplus / (Deficit)</b>	£343,330 – accounts as at 31 March 2018
<b>Payment during 2017-18</b>	Nil



<b>7. Produced in Kent</b>	
<b>Purpose of entity</b>	To increase the public's awareness of produce which has been produced in Kent.  Company Limited by Guarantee.
<b>Level and Nature of Interest</b>	KCC has joint voting rights with Hadlow College.  Liability is limited to £1.
<b>Directors on the Board</b>	Mr S Holden – KCC Member
<b>Profit or Surplus / (Deficit)</b>	£4,825 – accounts as at 31 March 2018
<b>Payment during 2017-18</b>	£90,450.00 (excluding VAT) – contribution towards salary costs.
<b>8. TRICS Consortium Ltd</b>	
<b>Purpose of entity</b>	Consortium of six County Councils owning and operating a transport trip rate database known as TRICS.  Company Limited by Shares
<b>Level and Nature of Interest</b>	37,500 shares of total share capital of 225,000 (16.7% holding).  One of six member with equal voting rights (one vote per member)  We received a dividend £93,041.
<b>Directors on the Board</b>	None
<b>Profit or Surplus / (Deficit)</b>	£603,355 – accounts as at 31 December 2017
<b>Payment during 2017-18</b>	£3,250.00 (excluding VAT) – Licence

<b>9. Kent PFI Holding Company 1 Ltd</b>	
<b>Purpose of entity</b>	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).
<b>Level and Nature of Interest</b>	<p>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:</p> <ul style="list-style-type: none"> <li>• £2,681,260.21 in loan notes</li> <li>• £2,113,808.91 in shares</li> </ul> <p>During 2017-18 we received £492,364.15 relating to dividends, interest and repayment of loan notes.</p>
<b>Directors on the Board</b>	<p>Mrs J Lee – KCC Officer</p> <p>Ms J Hansen – KCC Officer</p>
<b>Profit or Surplus / (Deficit)</b>	£197,000 – accounts as at 31 March 2018
<b>Payment during 2017-18</b>	£10,263,795.62 (excluding VAT) – PFI costs

### **3 RECOMMENDATION**

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

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

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By: Peter Oakford, Deputy Leader and Cabinet Member for Finance and Traded Services  
Cath Head, Head of Finance (Operations)

To: Governance and Audit Committee – 24 April 2019

Subject: East Kent Opportunities LLP

Classification: Unrestricted

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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**

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### **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 where the property market started to recover:

- i. During 2016-17, EKO LLP disposed to Homes England (then the Homes and Communities Agency) 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. Homes England in January 2019 marketed the sale/or partnership development of the entire 33 Acres at New Haine Road it acquired (22 Acres from EKO) for residential delivery. The success of this process has yet to be disclosed by HE.

- ii. The old Laleham School site in Cliftonville was marketed and a sale completed to Orbit Housing in March 2017. The site had detailed planning permission for redevelopment for some 70 family dwellings. The site has more recently been held up because of archaeology survey work.
  - iii. All EKO LLP loans have been repaid and the Eurokent Link Road has been repaid in 2017-18. This was possible due to the various land sales 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 expand and see increasing development activity and occupancy. Further plots (Plots 4a, 4b, 7, 8a 9c) were consented and sold in 2017-18 to Manyweathers Properties who have created The Oaks and The Maples business parks. Both business parks provide extensive numbers of small and medium sized accommodation for SME workspace, with both freehold and flexible rental space. With flexible and adaptable units for local SME companies with a continually growing high percentage of owner/occupiers where pre-sales/lets are the norm. Further land sales to the same developer are going to allowing additional phases (Plots 8b, 9d & 9e) of similar accommodation expected during 2019-20.
  - v. Additional land sales to other local companies such as WW Martin, Robbie Toys, Groundwork Solutions and All Access Scaffolding, amongst others are in the pipeline and expected to also exchange and complete in spring/summer 2019.
  - vi. Due to the continuing growth demand for further service provisions and access roadways there are likely to be further infrastructure costs to be allowed for in the land sale process. Southern Water, and technical issues with the Environment Agency whilst currently resolved do remain a potential concern.
  - vii. At Eurokent the final two plots Area 2- Modular low cost residential housing for 38 units and Area 3 - office and workshop units have been exchanged subject to detailed planning permission being granted. Legal completion is expected in the Summer/autumn 2019.
  - viii. Next steps for the company will include:
    - i. Continued marketing and final negotiations for land sales at Manston Business Park.
    - ii. Exit strategy to be orchestrated and agreed by EKO Management Team
5. East Kent Opportunities LLP's Annual Report and Financial Statements for 2017-18 are attached at Appendix 1, and the key points can be summarised as follows:

- i. In 2017-18, in the EKO LLP accounts, the net assets of the joint arrangement are £8.2m. The operating loss before members' remuneration and profit shares available for discretionary division among members of £0.24m.
- ii. The accounts have been approved by the EKOLLP Management Committee and lodged with Companies House and gives 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**  
**Emma Feakins, ST, Finance**  
**24 April 2019**

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By: Mark Dance  
Cabinet Member Economic Development

To: Governance and Audit Committee

Date: 24 April 2019

Subject: Regional Growth, Discovery Park Technology Investment Fund

Classification: Unrestricted

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Summary: This report provides an update and summary on the equity investment Programmes/Fund made since the RGF programmes were launched in April 2012.

## **For Assurance**

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### **1. Background Information**

- 1.1 Between 2012/13 and 2015/16 the Department of Business, Innovation and Skills (BIS) allocated £55 million from the Regional Growth Fund (RGF) to KCC to deliver three schemes:
- Expansion East Kent (£35 million for projects in East Kent)
  - Tiger (£14.5 million for projects in North Kent and Thurrock)
  - Escalate (£5.5 million for projects in West Kent and parts of East Sussex)
- 1.2 These schemes offered:-
- (i) loan finance at 0% interest, with a repayment period of between 5 and 7 years.
  - (ii) grants
  - (iii) investment in companies' equity.
- 1.3 This report provides an update and summary on the equity investment Programmes/Fund made since the RGF programmes were launched in April 2012.

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### **2. Summary Headline (for assurance)**

- 2.1 KCC has managed two equity programmes funded from the Regional Growth Fund.

#### **KCC RGF Bespoke Equity Fund (KRBEF)**

£3.5 million has been invested in the unlisted equity of 10 companies located across Kent. These investments were funded from the Expansion East Kent, Tiger and Escalate RGF programmes.

## Discovery Park Technology Investment Fund (DPTIF)

£4.6m investment in the unlisted equity of 8 companies are located in Discovery Park in East Kent. These were funded from the Expansion East Kent programme.

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### 3. **KCC RGF Bespoke Equity Portfolio (KRBEF)**

- 3.1 The KCC RGF Bespoke Fund (KRBF) purchased shares to the value of £2,871,498 in 10 companies which were early stage businesses, pre-profit (and in many cases pre-revenue) at the time of the investment. Accordingly, this fund is high risk investments.
- 3.2 The companies in whom the KRBF invested also received 0% loans. Two companies have repaid their loans in full. The other companies are continuing to make repayments as per loan agreements.
- 3.3 The KRBEF's mandate is:-
- KCC will only make an investment in the company alongside other private sector investors.
  - KCC will not be the lead in the funding round.
  - KCC must only hold a minority shareholding.
  - KCC must have the right to appoint an observer or to appoint a board member onto the company board.
  - The investment must be made in accordance with state aid legislation and apply the Market Economy Operator Principles (MEOP). The Principles state 'an economic transaction carried out by a public body does not constitute State aid if it is carried out in line with normal market conditions'.
- 3.4 Six transactions have been made to purchase equity, three involve convertible loan agreements and one for crowd funding.
- 3.5 NCL Technology Ventures (NCL) has been appointed to manage, monitor and oversee these investments.
- 3.6 NCL report quarterly to the Investment Advisory Board which is chaired by the Leader of the Council and has a majority of representatives from the private sector.
- 3.7 The companies which KCC have an invested in present an update on their performance to the Investment Advisory Board on an annual basis.
- 3.8 KCC has received a small dividend payment from one company. The positive impact on the local economy and good prospects of KCC obtaining a finance return on its investment. One company has gone into administration.
- 3.9 Indicative valuation for KCC (KRBEF) Grandfathering Portfolio itemising details on the companies and the shareholdings are contained within the Exempt Report.



- 3.10 The strategy for these investments is to maximise the financial return for KCC. KCC will seek to exit at an acceptable value.
- 3.11 The focus is on companies with a strong potential for growth and a high return on investment. Private sector investment is also required on the same terms as the equity is purchased by its fund to meet state aid legislation (see 3. above).
- 3.12 Over £20m of private sector investment has been syndicated and facilitated across the 7 companies with an additional £7m obtained in grants.
- 3.13 Details on the companies, shareholdings and valuation are contained in the Exempt Report (Indicative Valuation of KCC Equity Investments).

#### **4. The Discovery Park Technology Investment Fund (DPTIF)**

- 4.1 The Discovery Park Technology Investment Fund (DPTIF) was launched in January 2015 to attract companies to locate at Discovery Park or other parts of East Kent.
- 4.2 NCL carries out detailed analysis of each company including management structure, financial position and technical analysis of the product for KCC. A full report is compiled for KCC. Recommendations are presented to the Investment Advisory Board by NCL. Representatives from those companies are invited to meet the Board and present their proposals once all the due diligence has been completed. Only 8 companies have been included in the fund although circa 400 companies have been assessed.
- 4.3 The investment structure consists of a beneficiary holder of the shares, a special partner (NCL) and general partner (NCL). This ensures the fund operates under FCA regulations and is a structure that replicates existing Venture Capitalist funds. This allows for private sector funding of the equity alongside KCC's funds.
- 4.4 £4.6m has been invested in 8 companies in the DPTIF portfolio.
- 4.5 The mandate for the DPTIF is as follows:-
- KCC will only permit an investment if there are other private sector investors.
  - NCL acting on behalf of KCC may take the lead role in the funding round to acquire other investors.
  - The fund must only hold a minority shareholding.
  - NCL / KCC must have the right to appoint an observer or to appoint a board member onto the company's board,
  - The investment must be made in accordance with state aid legislation and apply the Market Economy Operator Principles (MEOP). In commercial terms this means the investment of public funds must be made in line with normal market conditions. As the Principles state 'an economic transaction carried out by a public body does not constitute State aid if it is carried out in line with normal market conditions'.

- The company receiving investment must be located in Discovery Park or relocate to Discovery Park.
- 4.6 Details on the companies, shareholdings and valuation are contained in the Exempt Report – DPTI Valuation.
- 4.7 The valuation of any business will be based on several factors which will inform the point of exit. An exit strategy has been prepared for each investment and varies from three to ten years.
- 4.8 The portfolio NCL is currently reporting an uplift of Circa 25% (annualised) based on IPEVC (International Private Equity Venture Capital Valuation Guidelines) with no failures to date.

## **5. Conclusion**

### **5.1 In conclusion:-**

- Both equity programmes are still in the early stages and it is anticipated that some of the investments will not show a positive return on investment before 3 to 5 years.
- The exit strategy is different for each company.
- There are early signs of increased value of shareholdings in some of the investments.
- The Investment Advisory Board receives quarterly reports on the performance of all the companies.
- An annual report is provided to the Governance and Audit Trading and Activities Committee.

## **6. Recommendation**

To note the report for assurance.

**David Smith**  
**Director, Economic Development**  
**03000 417176**

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