

GOVERNANCE AND AUDIT COMMITTEE

Thursday, 8th October, 2020

10.00 am

Online

This meeting will be held over 2 Sessions. Session 1 (Items 1 to 18) will start at 10.00 am. Session 2 will start at 2.00 pm, covering the remainder of the agenda.





AGENDA

GOVERNANCE AND AUDIT COMMITTEE

**Thursday, 8th October, 2020, at 10.00 am
Online**

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

This meeting will be held over 2 Sessions.
Session 1 (Items 1 to 18) will start at 10.00 am.
Session 2 will start at 2.00 pm, covering the
remainder of the agenda.

Membership (12)

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 (Green Party) (1): Mr M E Whybrow

Independent Member of the Governance and Audit Committee (1) Dr D A Horne

In response to COVID-19, the Government has legislated to permit remote attendance by Elected Members at formal meetings. This is conditional on other Elected Members and the public being able to hear those participating in the meeting. This meeting of the Committee will be streamed live and can be watched via the Media link on the Webpage for this meeting.

UNRESTRICTED ITEMS

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

1. Introduction
2. Substitutes

3. Declarations of Interest in items on the agenda for this meeting
4. Minutes - 21 July 2020 (Pages 1 - 6)
5. Committee Work and Member Development Programme (Pages 7 - 12)
6. KCC Insurance Overview (Pages 13 - 18)
7. Treasury Management Update (Pages 19 - 38)
8. KCC Annual Customer Feedback Report 2019/20 (Pages 39 - 74)
9. Annual Governance Statement (Pages 75 - 102)
10. Audit Committee Effectiveness and Annual Review of the Terms of Reference of the Committee - Verbal Update
11. Internal Audit Progress Report (Pages 103 - 128)
12. Counter Fraud Progress Report (Pages 129 - 138)
13. Internal Audit External Quality Assessment Process (Pages 139 - 144)
14. External Audit Findings for Kent County Council (Pages 145 - 186)
15. External Audit Findings Report for Kent Pension Fund (Pages 187 - 208)
16. Letters of representation for External Audits (Pages 209 - 216)
17. External Audit Progress Report and Sector Update (Pages 217 - 238)
18. Local Government Audit and Financial Reporting - The Redmond Review (Pages 239 - 256)
19. Statement of Accounts TO FOLLOW
20. Statutory Accounts for those companies in which KCC has an interest (Pages 257 - 262)
21. Regional Growth Fund, Discovery Park Technology Investment Fund and Kent Life Science Fund (Pages 263 - 268)
22. Other items which the Chairman decides are urgent
23. Motion to exclude the public

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

EXEMPT ITEMS

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

24. Regional Growth Fund, Discovery Park Technology Investment Fund (Pages 269 - 286)

25. Performance of KCC wholly owned companies (Pages 287 - 436)

26. East Kent Opportunities LLP (Pages 437 - 458)

Benjamin Watts
General Counsel
03000 416814

Wednesday, 30 September 2020

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

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KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Online on Tuesday, 21 July 2020.

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 G Cooke, Mr D Farrell, Mrs S V Hohler, Dr D Horne, Mr H Rayner and Mr M E Whybrow

ALSO PRESENT: Mr R W Gough and Mr P J Oakford

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mrs C Head (Head of Finance Operations), Miss E Feakins (Chief Accountant), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mr B Watts (General Counsel), Mr J Idle (Head of Internal Audit), Mr J Flannery (Principal Auditor), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr M Scrivener (Corporate Risk Manager) and Mr A Tait (Democratic Services Officer)

UNRESTRICTED ITEMS

14. Minutes - 22 January 2020

(Item 4)

RESOLVED that the Minutes of the meeting held on 22 January 2020 are correctly recorded and that they be signed by the Chairman.

15. Committee Work and Member Development Programme

(Item 5)

(1) The Head of Internal Audit provided an update on the forward Committee Work and Member Development programme following best practice guidance in relation to Audit Committees. He explained that the report reflected the current version of the programme and that changes might need to be reported to a later meeting in the light of the pending reviews of the effectiveness of the Committee and its Terms of Reference.

(2) The Head of Internal Audit asked the Committee to note that there would be an additional meeting on Tuesday, 1 September 2020 which would mainly consider Finance items.

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

16. Draft Statement of Accounts

(Item 6)

(1) The Chief Accountant introduced the draft Statement of Accounts. She explained that these had been produced in June and were now in the process of being audited. The final Statement would be reported to the September meeting of the Committee.

(2) Members of the Committee congratulated the Finance Team on producing the draft Statement under very trying circumstances and also commented positively on the two recent Workshops which had been well attended and had provided training and insight into the risks and assurances associated with the Statement.

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

17. Treasury Management Annual Review 2019/20

(Item 7)

(1) The Treasury and Investments Manager introduced the report which summarised Treasury Management activity in 2019/20. In response to a question, she said that the Externally Managed Investments market value had risen from £157.3m to £164m during the period April to June 2020.

(2) The Treasury and Investments Manager explained that deposits made to other Local Authorities were limited to six months' maturity. She agreed to provide an explanation of the rationale to all Members of the Committee and to discuss it separately with any of its Members.

(3) The Treasury and Investments Manager agreed to Members' requests to include reference to the National Audit Offices' report on Local Authority borrowing and property investment in commercial property in a future report. She also agreed to provide further details on the pooled funds.

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

18. External Audit Interim Findings for Kent Superannuation Fund

(Item 8)

This item was considered after Item 9 (Minute 19).

(1) Ms Tina James from Grant Thornton (UK) LLP introduced the report on the External Auditor's interim Audit Findings for the Kent Superannuation Fund.

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

19. External Audit Update and Audit Plan for KCC and the KCC Superannuation Fund

(Item 9)

This item was considered before Item 8 (Minute 18) above.

(1) Mr Paul Dossett of Grant Thornton (UK) LLP introduced a report consisting of three documents which updated the Committee on progress for the Year ending 31 March 2020 and the Audit Plans for KCC and the KCC Pension Fund for 2019/20. He explained that, as was the case with all Audit Plans, those for KCC and its Pension Fund would include an assessment of the planned response to the COVID 19 pandemic.

(2) During discussion of this item, the Monitoring Officer agreed to facilitate discussions between Mr Rayner, other Committee Members and the Cabinet Member for Finance and Traded Services on the regularity with which LATCOs should be reported to the Committee.

(3) RESOLVED that the update report from the External Auditors be noted together with the Audit Plans for KCC and the Kent Superannuation Fund 2019/20.

20. Internal Audit Progress Report

(Item 10)

(1) The Head of Internal Audit introduced the report which gave an accumulative summary view of the work undertaken by Internal during the period January to July 2020, together with the resulting conclusions where appropriate. This included the provision of a supportive approach to the Council as a consequence of the Covid-19 pandemic, involving advice and assurance in new key risk areas which the Council now faced and had to manage.

(2) The Head of Internal Audit drew the Committee's attention to the summaries of 6 of the 25 completed audit reviews. These were: Risk Management; the Data Security and Protection Toolkit Compliance Review; ICT Project Management; Clinical Professional Development – Public Health; the Schools Themed review (Business Continuity Planning; and the Adult Social Care and Health Portfolio Board.

(3) The Head of Internal Audit agreed to provide Committee Members with details of the membership of the ICT Project Management Board as well as an explanation of the guidance provided by KCC to Schools for the Autumn Term 2020.

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

21. Counter Fraud Update

(Item 11)

(1) The Counter Fraud Manager reported on Counter Fraud activity undertaken during 2019/20 and the Counter Fraud Action Plan 2020/21. He said that the risk of Fraud was increasing as a result of COVID 19, and that this had required a review of the of the Counter Fraud Team's resources in response. Blue Badge and concessionary fares Fraud continued to be high-volume, low value activity.

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

22. Policy Reviews

(Item 12)

(1) The Counter Fraud introduced proposed revisions to the Anti-Money Laundering Policy; the Anti-Bribery Policy; and the Anti-Fraud and Corruption Strategy.

(2) The General Counsel replied to a comment made in respect of the Anti-Bribery Policy not being reflected in the KCC Member Code of Conduct by confirming that this would be considered by the Standards Committee during its pending review of the Code.

- (3) RESOLVED that the proposed revisions to the Anti-Money Laundering Policy, the Anti-Bribery Policy and the Anti-Fraud and Corruption Strategy be agreed.

23. Internal Audit Annual Report and Opinion 2019/20

(Item 13)

(1) The Head of Internal Audit introduced the Annual Report which detailed the overall outcomes and key themes from Internal Audit work undertaken during 2019-20; the translation of these outcomes to the resultant annual opinion on the Council's systems of governance, risk management and internal control that was incorporated into the Annual Governance Statement together with the related performance of the Internal Audit service in delivering this work.

(2) The Head of Internal Audit replied to a question on whether the reporting on findings in respect of LATCOs by saying that KCC Internal Audit function's role was to assess the arrangements for the County Council in respect of LATCOs rather than the LATCOs themselves.

(3) The Head of Internal Audit explained that the phrase "in progress" was a very wide definition of responses to delivery against the Internal Audit Plan. He confirmed that the Committee would continue to receive updates on delivery for those areas where the "in progress" definition had been used.

(4) RESOLVED that:-

- (a) the report be received as a source of independent assurance regarding the risk, control and governance environment across the Council, and
- (b) the outcomes from 2019-20 Internal Audit work be noted together with the resultant '**Adequate** opinion to the Annual Governance Statement.

24. Internal Audit and Counter Fraud Plan 2020/21

(Item 14)

(1) The Head of Internal Audit introduced the report which detailed the proposed Internal Audit and Counter Fraud Plan for 2020-21 as well as the Audit Charter, which underpinned the plans and practice of the KCC Internal Audit team. He explained that the content of the Plan needed to be flexible during the pandemic and that there was a strong possibility that amendments would need to be reported to future meetings of the Committee.

(2) RESOLVED that:-

- (a) the proposed Internal Audit and Counter Fraud Plan 2020/21 be agreed; and
- (b) approval be given to the Internal Audit Charter.

25. Corporate Risk Register

(Item 15)

(1) Mr R W Gough was present for this item. He introduced the report which presented the register to the Committee and also gave an overview of the main

Coronavirus (Covid-19) risks and issues identified up to this point and their impact on KCC's corporate risk profile. He said that the changes made to the register since the last meeting of the Committee reflected the vulnerability of partner organisations and the combination of risks posed by the potential increase in the threat posed by COVID 19, and the impact of Brexit transition and their overall impact on capacity and resources.

(2) The Corporate Risk Manager drew the Committee's attention to the increase in risk rating that had been identified for most of the risks on the register. He also asked the Committee to agree to hold a Risk Workshop, the timing of which would be agreed with the Chairman and Democratic Services. This was agreed.

(3) Members of the Committee commented on Risk CRR 0009 *Future financial and operating environment for local government*, noting its potential impact on KCC's ability to meet statutory requirements including safeguarding.

(4) The Corporate Risk Manager replied to Members' questions by saying that he expected the reviews of Risks CRR 0003, 0042 and 0045 to yield a clearer picture of these risks by the Autumn.

(5) The Corporate Risk Manager and the Leader of the Council replied to Members' question in respect of Risk CRR 0047 *Adequacy of support for children with Special Educational Needs and Disabilities (SEND)* by saying that this risk remained high despite the focussed improvements made in many regards. This was because the COVID 19 pandemic had placed enormous pressure on the timeliness of the production of Education, Health and Care Plans (EHCPs).

(6) RESOLVED that:-

(a) the report be noted for assurance; and

(b) a Risk Workshop be arranged for Members of the Committee at on a date agreed by the Chairman and Democratic Services.

26. Audit Risk Assessment

(Item 16)

(1) The Corporate Finance Director introduced the questionnaire from Grant Thornton and their summary of management responses to questions on the Council's processes in relation to general enquiries of management, fraud, law and regulations, going concern, and related parties and accounting estimates.

(2) In response to Members' questions, the General Counsel explained that assurance in respect of LATCOs was provided by the Head of Internal Audit, who was also the Auditor for the various KCC companies. Arrangements were in place for him to raise issues with the Shareholder Boards, himself as KCC's Monitoring Officer and/or the appropriate Cabinet Member(s).

(3) RESOLVED that the management responses provided to Grant Thornton be agreed.

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 paragraph 3 of Part 1 of Schedule 12A of the Act.)

27. Internal Audit Progress Report - Audit Summaries
(Item 19)

(1) The Head of Internal Audit presented progress reports in respect of the audits on: Wireless Network Security and Capacity; Information Technology; Agilysis – Contract Management; LATCOs Client-Side Contract Management; Special Educational Needs and Disability Follow Up; Non Household Waste Charging; and Highways Team Services Commissioning Programme Project Start Up / Initiation.

(2) In response to Members' questions, the General Counsel confirmed that a report on companies would be submitted to the next meeting of the Committee. This would include issues raised in respect of governance and responsibility.

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

By: David Brazier, Chairman of Governance and Audit Committee
Jonathan Idle, Head of Internal Audit

To: Governance and Audit Committee – 8th October 2020

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

Classification: Unrestricted

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

FOR DECISION

Introduction and background

1. CIPFA best practice guidance on the function and operation of audit committees in Local Government 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 comment on the programme and 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's 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 year.
4. Reviews of the effectiveness of the Governance and Audit Committee and also, its Terms of Reference continue to remain outstanding and, consequently, the Work Programme may be amended during 2020-21.

Member Development Programme

5. It is good practice for the Committee to embrace a Member development programme including through a series of pre-meeting briefings, focusing on areas that are of specific relevance to this Committee. This has been successfully implemented over the last few years.

6. Since the previous Committee in July 2020, a Risk Workshop training session with members has been held.
7. Subsequent to this Committee, there will be discussions between the Chair of the Committee and officers to review the Development Programme for the remainder of 2020-21. The outcome of the review will be presented to the January Committee for consideration and approval.

Recommendations

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

Jonathan Idle
Head of Internal Audit (03000 417840)

Committee Work Programme

Appendix 1

Category Item	Owner	Jul-20	Oct-20	Jan-21	Apr-21
Secretariat					
Minutes of last meeting	Andrew Tait	✓	✓	✓	✓
Work Programme	Jonathan Idle	✓	✓	✓	✓
Member Development Programme	Jonathan Idle	✓	✓	✓	✓
Risk Management and Internal Control					
Corporate Risk Register	Mark Scrivener	✓		✓	
Review of the Risk Management Strategy, Policy and Programme	Mark Scrivener			✓	
Report on Insurance and Risk Activity	Lee Manser		✓		
Treasury Management quarterly report/six monthly review	Alison Mings		✓	✓	✓
Treasury Management Annual Review	Alison Mings	✓			
Ombudsman Complaints	Pascale Blackburn-Clarke				
Annual Complaints & Customer Feedback Report	Pascale Blackburn-Clarke		✓		
Annual report on 'surveillance' activities carried out by KCC	Mark Rolfe			✓	
Corporate Governance					
Annual review of Terms of Reference of G & A	Jonathan Idle Ben Watts		✓		
Annual review of the Council's Code of Corporate Governance	Benjamin Watts		✓	✓	
LATCo Policies and Governance Structures (when required)	LATCO Board or originating Directorate			✓	
Review of Anti-Money Laundering Policy	Zena Cooke				✓
Review of Bribery Policy	Ben Watts				✓
Audit Committee Effectiveness	GAC Chair		✓	✓	

Category Item	Owner	Jul-20	Oct-20	Jan-21	Apr-21
Internal Audit and Counter Fraud					
Internal Audit Progress Report	Jonathan Idle		✓	✓	✓
Schools Audit Annual Report	David Adams			✓	
Internal Audit and Counter Fraud Annual Report	Jonathan Idle	✓			
Internal Audit Strategy and Annual Plan	Jonathan Idle				✓
Internal Audit External Quality Assessment	Jonathan Idle		✓		✓
Counter Fraud Annual Report	James Flannery	✓			
Counter Fraud Progress Report	James Flannery		✓	✓	✓
Review of the Anti-Fraud and Corruption Strategy (part of plan report)	James Flannery				✓
External Audit (provided by Grant Thornton)					
External Audit Update	Paul Dossett	✓	✓	✓	✓
External Audit Findings Report/Value for Money and Annual Audit Letter	Paul Dossett	✓	✓		
Pension Fund Audit Findings Report	Paul Dossett	✓			
External Audit Certification of Claims and Returns Report	Paul Dossett				✓
Effectiveness of Internal and External Audit Liaison	Paul Dossett			✓	
External Audit Plan	Paul Dossett				✓
External Audit Pension Fund Plan	Paul Dossett				✓
External Audit Fee letter and / or procurement arrangements	Paul Dossett			✓	
External Audit Fraud, Law & Regulations & Going Concern Considerations	Zena Cooke				✓
Financial Reporting					
Statement of Accounts & Annual Governance Statement	Zena Cooke / Cath Head	✓	✓		

Committee Work Programme

Appendix 1

Revised Accounting Policies	Cath Head				✓
Review of Financial Regulations	Emma Feakins				✓
Performance of KCC Wholly Owned Companies	Emma Feakins		✓		
Review of Companies which KCC has an Interest					
Review of statutory accounts	Emma Feakins		✓		
Other Reports					
East Kent Opportunities LLP	Nigel Smith / Emma Feakins		✓		
Regional Growth, Discovery Park Technology Investment Fund	David Smith		✓		

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

To: Governance and Audit Committee – 8 October 2020

Subject: **KCC INSURANCE OVERVIEW**

Classification: Unrestricted

Summary: This paper provides a summary of insurance activity for the 2019/20 financial year and other points of interest.

FOR ASSURANCE

INTRODUCTION

1. The Council's insurance programme is extensive and designed to provide increased financial control of the risks arising from the diverse nature of its activities and support general business functions and income generating operations.
2. This report provides a review of activity for the 2019/20 financial year and other points of interest.

INSURANCE PROGRAMME

3. The insurance programme covers all directorate operations and local authority (non-academy) schools and is made up of several separate policies. The main four policies purchased are Employers Liability, Public Liability, Property, and Motor.
4. Following a tender of the full insurance programme effective from 1 January 2016, Zurich Municipal was awarded the contract for the majority of covers on a 5-year Long Term Agreement – expiring 31st December 2020.

The programme was therefore due to be tendered this year but due to the impact of Covid-19 and the pressures it presented to the Council's Commissioning Team, a decision has been taken to explore one-year contract extensions.

Whilst discussions are currently ongoing, it is anticipated that these will be secured by the beginning of November 2020.

The tender process will then re-commence in early 2021 with a view to a new programme being in place for 1st January 2022.

INSURANCE BROKER

5. A 12-month extension was agreed on existing rates with Arthur J Gallagher on 1st July 2020. A further option to extend until July 2022 is available and to ensure continued consistency throughout the tender process, it is likely that this will be accepted.

FUNDING OF INSURANCE PREMIUMS AND CLAIMS

6. Premiums and excess payments are paid through the corporately managed Kent Insurance Fund (KIF). Directorates and LEA schools contribute to this in accordance with their risk profile and claims experience. As at 31 August 2020, the KIF had a fully funded committed balance of £7.14m to meet the total for outstanding liabilities. This is lower than usual at this stage of the year, but the corporate contribution has yet to be transferred due to the wider review of reserves approved by county council in February 2020. The review will be concluded by December 2020 and if the contribution remains similar to previous years, then the fund balance will be appropriate.
7. The KIF is supported by the Insurance Reserve. As at 31 August 2020 this stood at £16.1m and is held to protect the Council against future unexpected insurance costs. This includes historic claims where insurance may not be available or those associated with the unexpected increase in the cost or volume of claims.

MUNICIPAL MUTUAL INSURANCE (MMI)

8. Kent County Council has held insurance with MMI over two periods – the first between 1977-1984 and the second between 1990-1992.

In 1992 MMI experienced financial difficulties and stopped writing new business. They have been operating in run-off ever since. A solvent run-off has not been possible and as a result, a 'Scheme of Arrangement' was triggered in 2014 which involved the clawing back of monies from past members of the mutual to meet the outstanding future cost of claims.

In 2014 KCC was required to make a payment equalling 15% of the total sum paid by MMI in relation to its claims. A sum of £600k was paid. In addition, KCC was required to pay 15% of all future claim payments.

In 2016 KCC was required to make a further payment of 10%. A sum of £380k was paid. In addition, KCC now pays 25% of all future claims.

It is hoped that the levy collected from authorities to date will be sufficient to enable MMI to continue its run-off for several years and possibly even to close. Whilst the long tail nature of occupational disease and abuse claims makes them difficult to forecast, it is evident that these are starting to slow for the period of MMI's cover.

There is a current outstanding reserve against claims of £620k, which presents a potential further contribution of £155k under the current scheme if all these claims were to be settled (which is considered unlikely).

INSURANCE CLAIMS

9. Below is a summary of activity relating to the four main insurance policies during 2019/20.

10. EMPLOYER'S LIABILITY

The number of EL claims remains low

There are 10 new claims currently recorded for the 2019/20 financial year. This compares to 12 at the same time last year and 18 in 2017/18.

The majority of claims have occurred in schools.

7 out of the 10 claims have arisen due to incidents that have occurred in schools. All 10 claims are currently reserved at less than £50,000 (each).

A number of claims remain open across all years

There are 65 open claims that are currently being investigated and processed. These have an overall reserve of £2.47m. £830k is reserved against the KIF and the remaining £1.64m with the Council's insurers.

11. PUBLIC LIABILITY

PL claims have increased from last year

A total of 1,616 claims have been recorded against the 2019/20 financial year to date. This compares to 1470 at the same time last year. The increase is considered to be due to the wet weather that was experienced between December – February.

Almost all of these claims are highway related

98% of these claims are highway related. Vehicle damage due to potholes account for 67% of the claims.

KCC's repudiation rate remains strong

Decisions have been provided on the vast majority of vehicle damage claims for this period. 92% of claims have been defended. £11,500 has been paid in settlements to date. This is a fall of £7,500 compared to the same time last year.

Personal injury claims have increased	326 personal injury claims have been recorded against the 2019/20 financial year to date. This compares to 310 at this time last year. 95% of these claims are highway related. Liability has been denied for 88% of those that have been assessed. £123k has been paid to date in relation to claims that have been settled.
There are a number of claims categorised as 'large loss'	'Large loss' claims are those reserved at £100k or more. There are currently 32 open claims in this category – 8 of which have been received since 1 st April 2019. The majority of these arise as a result of highway related incidents but there are a small number relating to Education and Social Care. To date £6.95m has been paid (£6.3m by insurers and £650k by KCC) and a further £16.9m is reserved (£14m by insurers and £2.9m by KCC).
A number of claims remain open across all years	607 claims remain open across all years. These have a current total reserve of £23.6m (£14.3m by insurers and £9.3m by KCC)

12. PROPERTY

Property claims have fallen from last year	165 claims were made against the property policy for 2019/20. This compares to 180 in 2018/2019. £611k has been paid to date from the KIF (all claims have been below excess). £798k is reserved against claims that remain open.
The majority of claims have been received from schools	75% of the claims have been received from Kent schools. This includes several flooding claims arising from the heavy rainfall experienced in June 2019.

13. MOTOR

Motor claims have increased from last year	175 claims were made against the motor policy for 2019/20. This compares to 141 claims in 2018/2019. £240k has been paid to date from the KIF (all claims have been below excess). £47k is reserved against claims that remain open.
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The majority of claims have been received from Highways and schools

Of these claims, 40% have been presented by schools and 38% have been presented by Highways. The remainder were from within Social Care.

RECOMMENDATION

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

Lee Manser
Insurance Manager

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By:	Peter Oakford, Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services Zena Cooke, Corporate Director of Finance
To:	Governance and Audit Committee – 8 October 2020
Subject:	TREASURY MANAGEMENT UPDATE
Classification:	Unrestricted
Summary:	To report a summary of Treasury Management activity
FOR ASSURANCE	

INTRODUCTION

1. This report covers Treasury Management activity and developments in 2020-21 up to the end of July.
2. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of their treasury management function at least twice yearly (mid-year and at year end). This report provides an additional quarterly update as set out in the Council's Treasury Management Strategy.
3. The Council's Treasury Management Strategy for 2020-21 was approved by full Council on 13 February 2020.
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. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.

MONTHLY ACTIVITY REPORT

5. A monthly report is circulated to members of the Treasury Management Advisory Group and a copy of the July 2020 report is attached at appendix 1.

EXTERNAL CONTEXT

6. The global economic impact from coronavirus has taken centre stage since March 2020. The measures taken to stop the spread of the pandemic included the government implementing a nationwide lockdown in late March which effectively shut down almost the entire UK economy. These measures continued throughout most of the period covered by this report with only some easing of restrictions at the end of May and into June. The global economic fallout has also been substantial.

7. In the UK the Bank Rate was maintained at 0.1% and in June the Bank of England increased the asset purchase scheme by £100 billion, taking the recent round of Quantitative Easing (QE) to £300bn and total QE to £745 billion.
8. At the same time, the UK government also implemented a range of fiscal stimulus measures totalling over £300 billion which had been announced in March and designed to dampen the effect of the pandemic on the labour market.
9. The UK has officially entered a recession as GDP fell by 20.4% in April to June 2020 following a fall of 2% in January to March with widespread contractions across all the main sectors of the economy. GDP grew by 8.7% in June 2020 and in July it grew again by 6.6% but July monthly GDP was still 11.7% lower than the pre-pandemic levels seen in February 2020 as the services, production and construction sectors remained lower.
10. The headline rate of UK Consumer Price Inflation (CPI) was 1.1% in July up from 0.8% in June 2020 but still well below the Bank of England's 2% target.
11. In the three months to June, labour market data remained largely unchanged on the previous quarter. This is likely to be due to the government's furlough scheme as more than a quarter of the UK workforce was estimated to be supported by it. However, employers had to contribute towards furlough payments from August and the scheme is due to stop at the end of October so unemployment is expected to rise as a result.
12. After selling off sharply in March, global equity markets started recovering in April and while still down on their pre-crisis levels, the FTSE 100 and 250 have made up around half of the losses while the Dow Jones index has significantly recovered. Measures implemented by central banks and governments continue to maintain some degree of general investor confidence, however volatility remains.
13. Ultra-low interest rates and the flight to quality continued to keep gilts yields low over the period with the yield on some short-dated government bonds turning negative. The 5-year UK benchmark gilt yield dropped from 0.18% at the beginning of April 2020 to -0.06% on 30 June. The 10-year benchmark gilt yield fell from 0.31% to 0.14% over the same period, and the 20-year from 0.69% to 0.52%. 1-month, 3-month and 12-month bid rates averaged 0.04%, 0.28% and 0.44% respectively over the quarter.

LOCAL CONTEXT

14. At 31 March 2020 KCC had net investments of £381m arising from its revenue and capital income and expenditure. 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 current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order

to reduce risk and keep interest costs low. This strategy is regularly reviewed with the Council's treasury advisors taking account of capital spending plans and available cash resources.

BORROWING UPDATE

15. The National Audit Office published a report in February 2020 which found that spending by local authorities on commercial property had significantly increased in the 3 years to 2018-19 and that some authorities have been borrowing large sums mainly from the Public Works Loan Board (PWLB) to invest in commercial property much of it out of area.
16. The Chancellor's March 2020 Budget statement included significant changes to PWLB policy and launched a wide-ranging consultation on the PWLB's future direction.
17. The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.
18. Responses were due by 31 July 2020 and Kent submitted a response broadly supportive of the proposed changes.

BORROWING STRATEGY ACTIVITY

19. 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.
20. In keeping with these objectives no new borrowing was undertaken while £3.26m of existing loans were allowed to mature without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
21. At 31 July 2020 the Council held £880m of loans and details of this debt is shown in the table at paragraph 1.1 of Appendix 1.
22. 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 at 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.

TREASURY INVESTMENT ACTIVITY

23. The Council's average investment balances to date have amounted to £378m, representing income received in advance of expenditure plus balances and reserves held. Forecast cash balances are shown in the graph at paragraph 2.1 in appendix 1.
24. In March and April the Council received central government funding during the coronavirus pandemic through grants. £67m was received and temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. Most of these monies had been disbursed by the end of June.
25. 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.
26. The Council's investments during the 4 months to the end of July are summarised in the table at paragraph 3.2 in appendix 1 and a detailed schedule of investments as at 31 July is attached in Appendix 2.
27. At 31 July the Council had lent £46m to other local authorities (31 March 2020 £50m) with a maximum duration of 6 months. Loans are made taking account of the risks associated with the local authority as assessed by the Head of Finance (Policy, Planning and Strategy).

Externally Managed Investments

28. The council is invested in equity, multi-asset and property funds. Since March 2020 there has been some improvement in market sentiment which is reflected in an increase in capital values of the funds except for the CCLA property fund, as shown in the table below.

Investment Fund	Market Value at 31 March 2020	2020-21 Movement in market value	Market Value at 31 July 2020	4 months return to 31 July 2020	
	£m	£m	£m	Income %	Total %
CCLA - Diversified Income Fund	4.6	0.3	4.9	1.09	8.36
CCLA – LAMIT Property Fund	57.9	-2.5	55.4	1.28	-3.02
Fidelity Global Multi Asset Income Fund	23.7	1.1	24.8	1.72	6.19
Investec Diversified Income Fund	9.2	0.7	9.9	1.53	9.10

Kames Diversified Monthly Income Fund	16.9	1.9	18.8	1.41	12.37
M&G Global Dividend Fund	8.6	1.4	10.0	0.92	17.87
Pyrford Global Total Return Sterling Fund	4.7	0.2	4.9	0.76	4.56
Schroder Income Maximiser Fund	15.8	0.1	15.9	0.02	0.84
Threadneedle Global Equity Income Fund	8.4	0.8	9.2	2.06	11.02
Threadneedle UK Equity Income Fund	7.6	0.5	8.1	0.86	7.66
Total Externally Managed Investments	157.3	4.5	161.8	1.23	4.08

29. Like many other property funds, dealing in the CCLA Local Authorities Property Fund was suspended in March 2020 as it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. The temporary suspension remained in force on 31 July.
30. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed.
31. Strategic fund investments are made in the knowledge that capital values will fluctuate however the Council is invested in these funds for the long term and with the confidence that over a three to five year period total returns will exceed cash interest rates.

Estimates for income 2020-21

32. The average rate of return on the Council's portfolio is 1.81% that equates to £7m a year which is used to support services in year.
33. In 2020-21 the Council expects to receive lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019-20 and earlier years.

RECOMMENDATION

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

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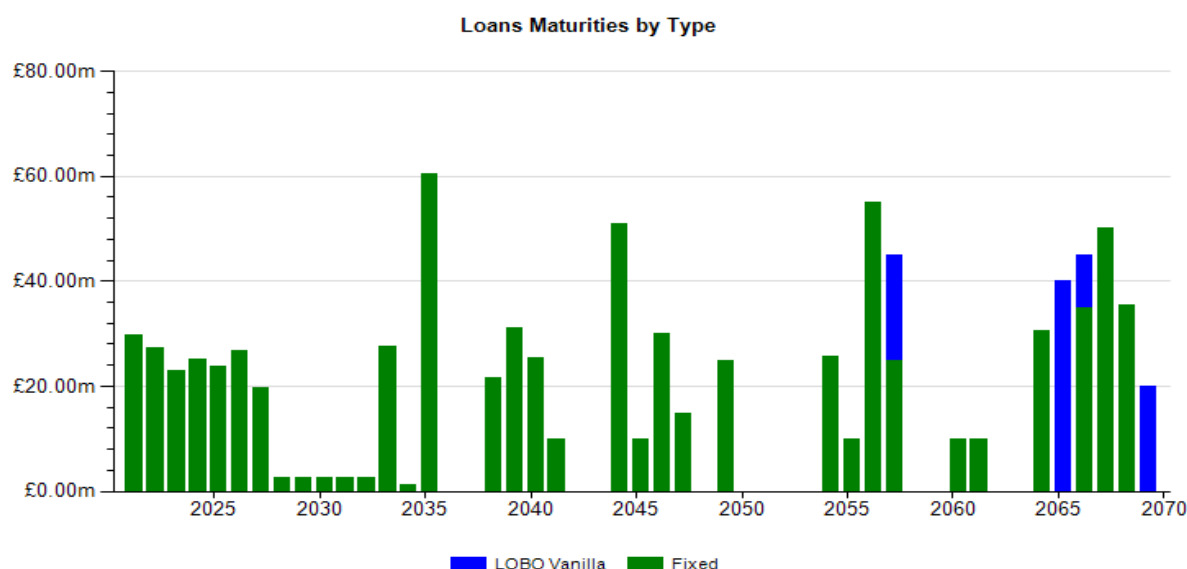
Treasury Management Report for the month of July 2020

1. Borrowing

1.1 The total amount of debt outstanding at the end of July was £880m. The following table shows the borrowing analysed by lender.

	31/03/2020 Balance £m	2020-21 Movement £m	31/07/2020		
			Balance £m	Average Rate %	Value weighted Average Life (yrs)
Public Works Loan Board	473.28	0.00	473.28	4.97%	15.88
Banks (LOBO)	90.00	0.00	90.00	4.15%	43.55
Banks (Fixed Term)	320.55	-3.26	317.29	4.14%	35.26
	883.83	-3.26	880.57	4.59%	25.69
Temp borrowing	0.00	0.00	0.00		
Total borrowing	883.83	-3.26	880.57	4.59%	25.69

1.2 The maturity profile of KCC's outstanding debt at 31 July was as follows:



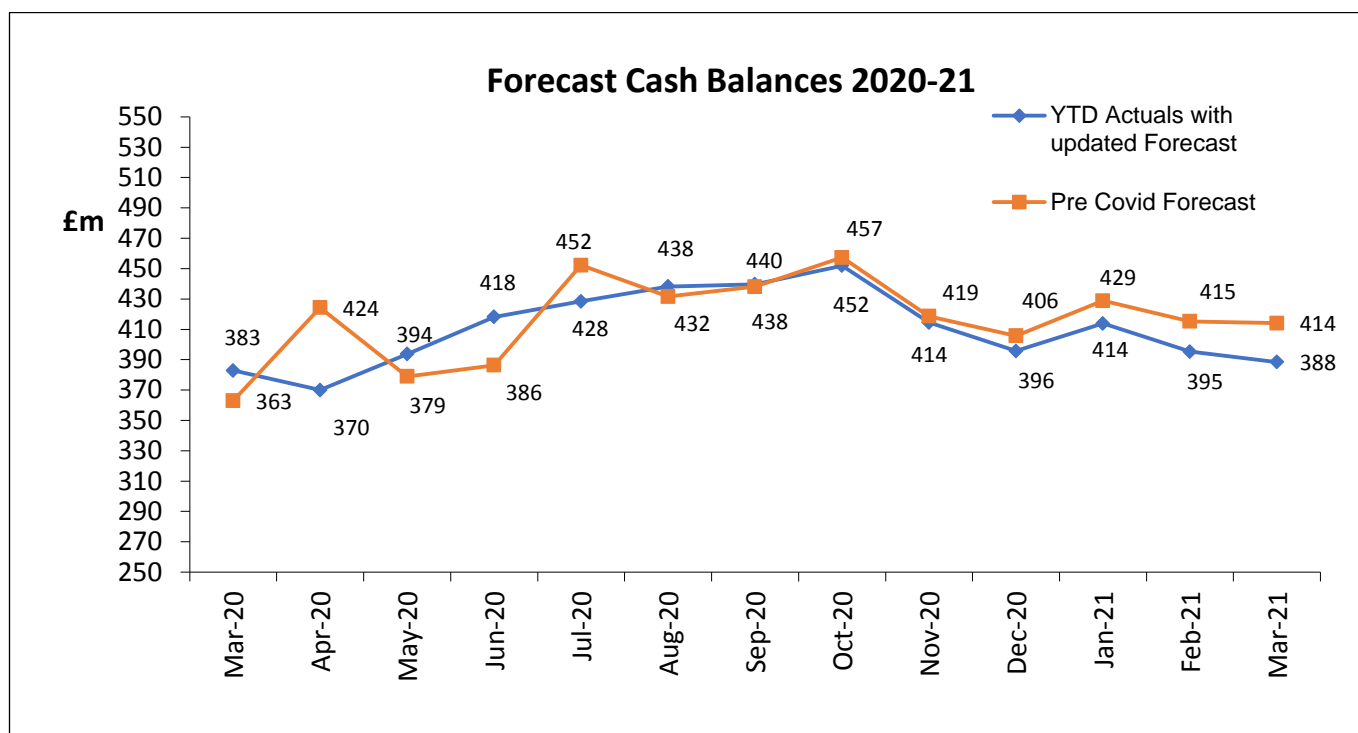
1.3 The following table shows the maturity profile of KCC's debt in 5-year tranches.

Loan Principal Maturity Period	Total Loan Principal Maturing	Balance of Loan Principal Outstanding
Opening Balance 31/07/2020		£880,571,128
Maturity 0 -5 years	£106,452,623	£774,118,505
Maturity 5 -10 years	£77,140,446	£696,978,059
Maturity 10-15 years	£38,700,173	£658,277,886
Maturity 15 -20 years	£114,668,374	£543,609,512
Maturity 20 -25 years	£87,009,512	£456,600,000
Maturity 25 -30 years	£79,800,000	£376,800,000
Maturity 30 -35 years	£35,700,000	£341,100,000
Maturity 35 - 40 years	£100,000,000	£241,100,000
Maturity 40 -45 years	£50,600,000	£190,500,000
Maturity 45 -50 years	£190,500,000	£0
Total	£880,571,128	

- 1.4 The Council's strategy continues to be to fund its capital expenditure from internal resources or short-term borrowing as well as consider longer term borrowing at advantageous points in interest rate cycles.
- 1.5 Total long-term debt managed by KCC includes £32.2m pre-LGR debt managed by KCC on behalf of Medway Council.
- 1.6 The consultation on the future direction of the PWLB closed on 31 July and we submitted a response which expressed support for the changes proposed and that the purpose of the PWLB should be refocused on supporting investment in service and regeneration projects. I also expressed concern regarding the terminology used and the need to more closely define debt for yield activity. It is anticipated that new lending terms will be implemented in the latter part of this calendar year.

2. Cash Balances

- 2.1 During the month of July, the value of cash under management increased by £10m to £428m. Forecast cash balances are as follows. The actual balances at the end of April and July were lower than anticipated reflecting higher outflows mainly related to Covid 19 spend.



3. Investments

- 3.1 At the end of July, the value of KCC's investments was £425m of which £162m, 38%, was invested in strategic pooled funds.
- 3.2 Details of the investments at the month end as well as the movement in 2020-21 are shown in the following table. A detailed listing of investments at 31 July is at appendix 2.

	31-March-20	2020-21	31-July-20		
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Bank Call Accounts	30.0	-11.7	18.3	0.01	A+
Money Market Funds	56.7	+33.0	89.7	0.18	AA-
DMO Deposits	0.00	+27.0	27.0	0.01	AA
Local Authorities	50.0	-4.0	46.0	0.30	AA-
Covered Bonds	84.9	-5.1	79.8	0.69	AAA
Icelandic Recoveries o/s	0.4	-0.2	0.2		
Equity	2.1	0	2.1		
Internally managed cash	224.1	+39.0	263.1	0.33	AA
Strategic Pooled Funds	157.3	+4.5	161.8	4.19	
Total	381.4	+43.5	424.9	1.81	

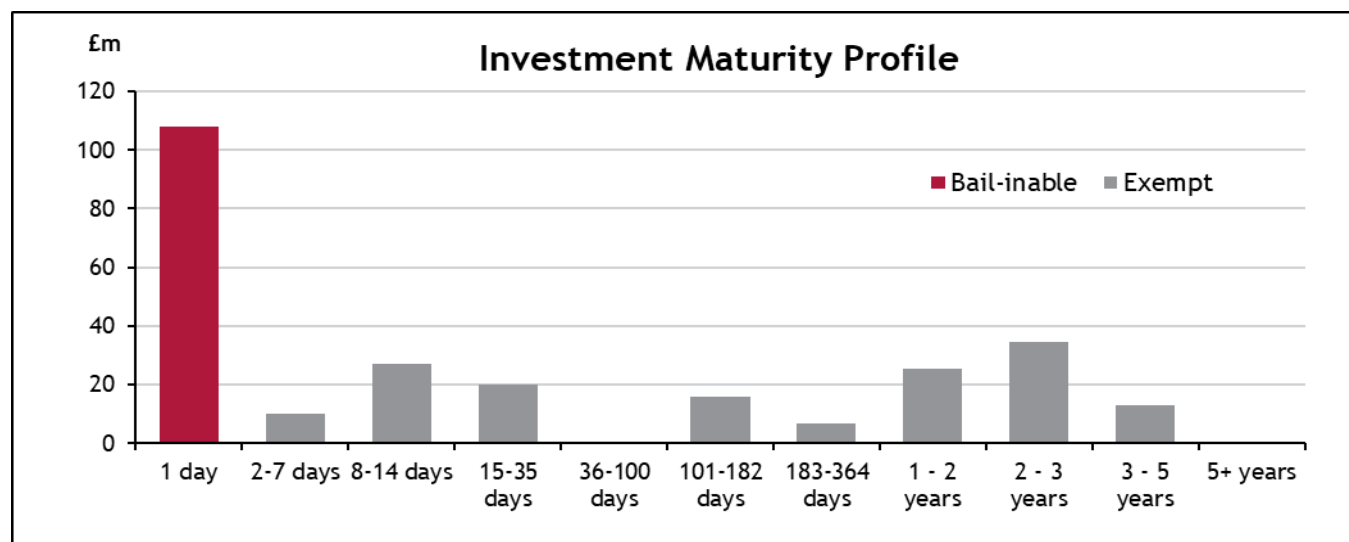
3.3 Internally managed investments

3.3.1 The rate of return on investments held at month end was 0.33% vs the target return 7-day LIBID of -0.063%. Returns are reducing although higher rates continue to be paid on the covered bonds.

3.3.2 With effect from 31 March the Council has provided a £10m loan facility to a housing association. We are receiving interest on the full £10m undrawn balance with the first payment received in July.

3.3.3 In July we received the final dividend from the liquidation of Heritable Bank. No further recoveries of the monies deposited with the Icelandic banks are anticipated and the final recovery now amounts to £52.815m, some £822k more than was deposited and interest due. The surplus is mainly due to a favourable exchange rate applying to the payment of Icelandic Kroner.

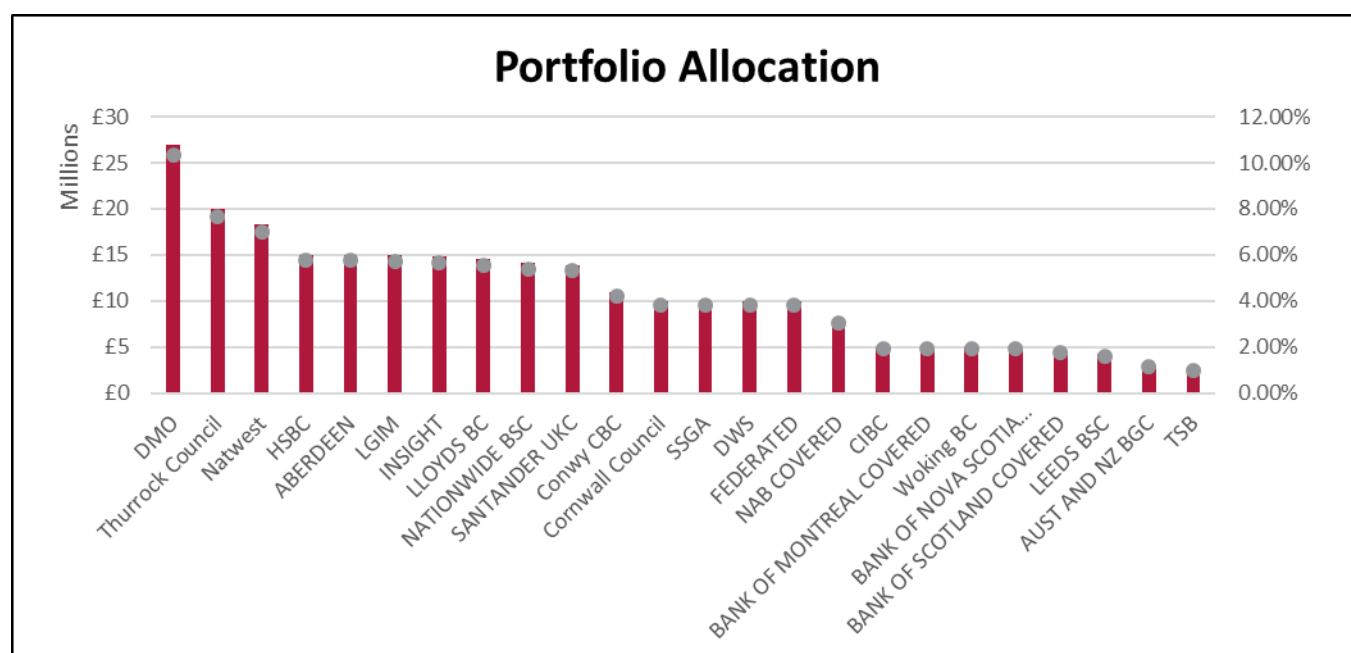
3.3.4 The maturity profile of KCC's investments is shown in the following chart.



Duration	Bail-inable	Exempt
1 day	£ 107.9	£ -
2-7 days	£ -	£ 10.0
8-14 days	£ -	£ 27.0
15-35 days	£ -	£ 20.0
36-100 days	£ -	£ -
101-182 days	£ -	£ 16.0
183-364 days	£ -	£ 6.9
1 - 2 years	£ -	£ 25.5
2 - 3 years	£ -	£ 34.3

	3 - 5 years	£	-	£	13.1
	5+ years	£	-	£	-
Total Investments		£	107.9	£	152.8

3.3.5 The Fund's exposure to its counterparties is as per the following graph. This shows the amount invested in £m and the percentage each investment represents of the total portfolio.



Counterparty	Total Principal	
DMO	£27,000,000	10.36%
Thurrock Council	£20,000,000	7.67%
Natwest	£18,250,000	7.00%
HSBC	£14,994,234	5.75%
ABERDEEN	£14,992,215	5.75%
LGIM	£14,957,390	5.74%
INSIGHT	£14,772,921	5.67%
LLOYDS BC	£14,509,423	5.57%
NATIONWIDE BSC	£14,085,624	5.40%
SANTANDER UKC	£13,888,768	5.33%
Conwy CBC	£11,000,000	4.22%
Cornwall Council	£10,000,000	3.84%
SSGA	£9,991,678	3.83%
DWS	£9,982,306	3.83%
FEDERATED	£9,981,720	3.83%
NAB COVERED	£7,979,830	3.06%
CIBC	£5,018,348	1.92%
BANK OF MONTREAL COVERED	£5,003,686	1.92%
Woking BC	£5,000,000	1.92%
BANK OF NOVA SCOTIA COVERED	£4,993,773	1.92%
BANK OF SCOTLAND COVERED	£4,600,813	1.76%
LEEDS BSC	£4,204,590	1.61%
AUST AND NZ BGC	£3,000,000	1.15%
TSB	£2,503,153	0.96%
Grand Total	£260,710,473	

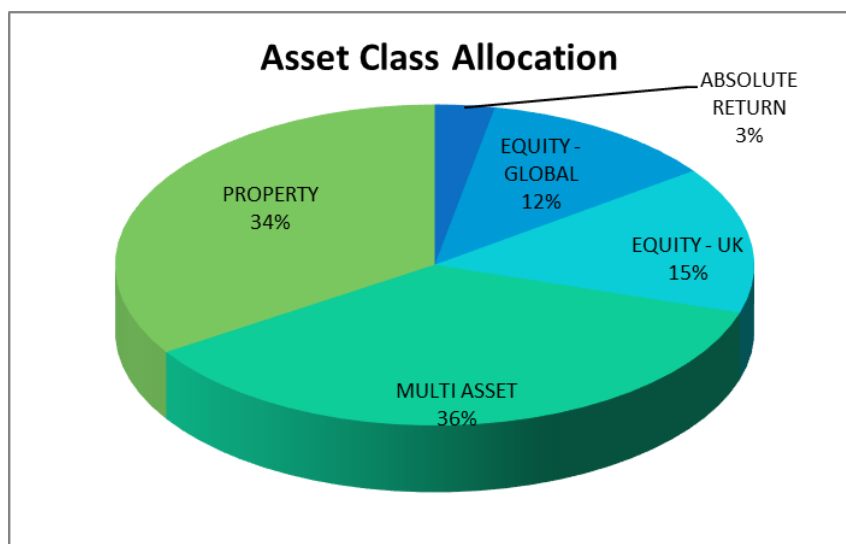
3.3.5 Credit Score matrix

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	3.1
Time Weighted Average	AAA	1.1

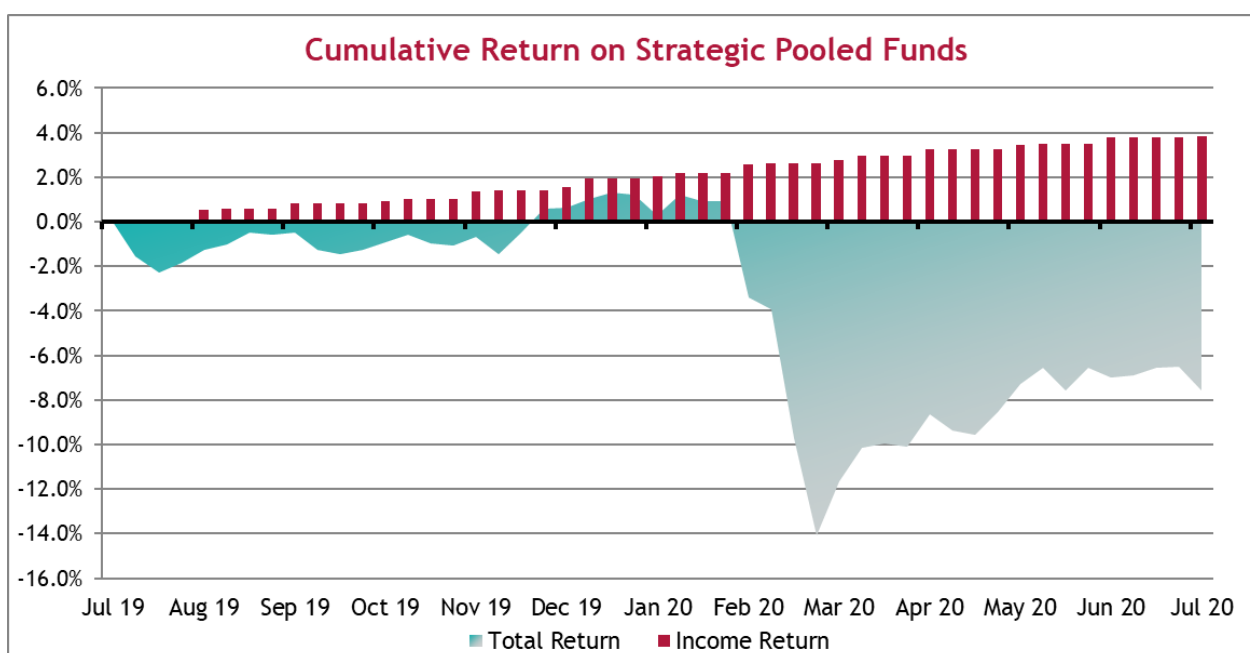
4. Strategic Pooled Funds

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



4.2 During the 4 months to the end of July the market value of the pooled funds rose by 2.85% as all the funds other than the property fund made gains. The CCLA property fund remains gated.

4.3 Since the end of March the funds have achieved an income return of 1.23%. The following chart tracks the returns earned on the pooled funds over the 12 months to end July 2020.



5. Revenue outturn

5.1 With assistance from Arlingclose officers are continuing to monitor the income returns on KCC's investments especially the strategic pooled funds. Our view continues to be that during 2020-21 income from the pooled funds will be lower by between 20 and 50% however still higher than the returns available on cash investments.

6. Arlingclose benchmarking

6.1 Arlingclose benchmark the performance of their clients each quarter and the following chart summarises the results for June 2020.



Investment Benchmarking 30 June 2020

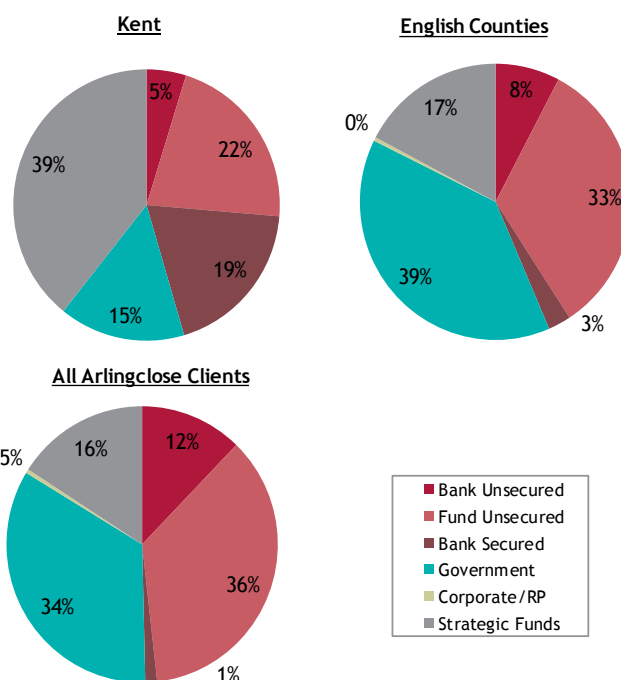
	Kent	10 English Counties Average	125 LAs Average
Internal Investments	£253.4m	£216.2m	£66.2m
Cash Plus & Short Bond Funds	£0.0m	£1.9m	£2.1m
Strategic Pooled Funds	£163.9m	£60.0m	£11.2m
TOTAL INVESTMENTS	£417.4m	£278.1m	£79.5m

Security			
Average Credit Score	3.13	3.93	4.10
Average Credit Rating	AA	AA-	AA-
Average Credit Score (time-weighted)	1.18	3.68	3.98
Average Credit Rating (time-weighted)	AAA	AA-	AA-
Number of Counterparties / Funds	35	27	13
Proportion Exposed to Bail-in	43%	47%	59%

Liquidity			
Proportion Available within 7 days	29%	46%	54%
Proportion Available within 100 days	38%	56%	72%
Average Days to Maturity	286	250	18

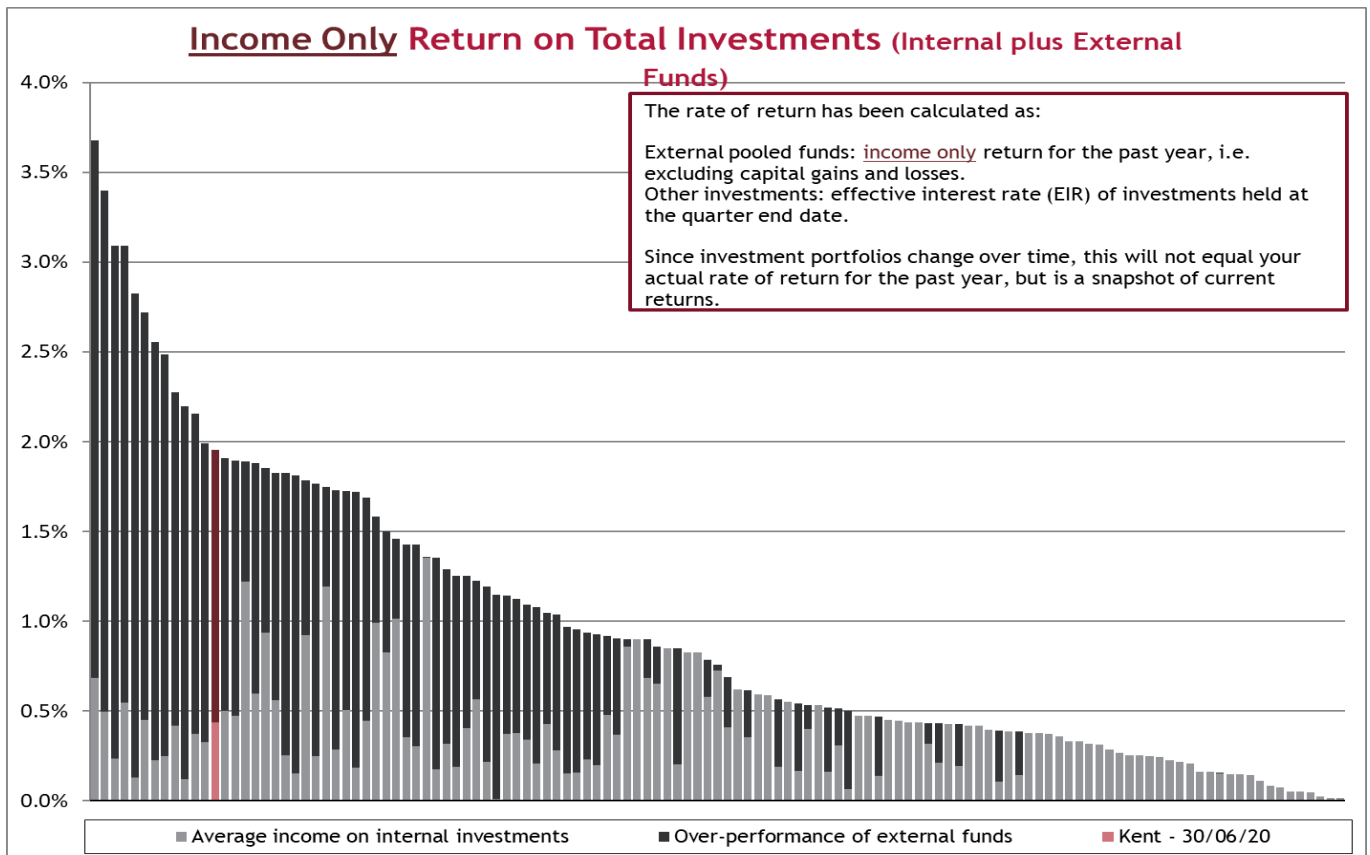
Market Risks			
Average Days to Next Rate Reset	115	237	47
Strategic Fund Volatility	10.8%	7.0%	7.7%

Yield			
Internal Investment Return	0.44%	0.64%	0.38%
Cash Plus & Short Bond Fund - Total Return	-	1.12%	0.97%
Strategic Funds - Total Return	-5.42%	-4.40%	-4.12%
Total Investments - Total Return	-1.86%	-0.27%	-0.30%
All External Funds - Income Only Return	4.30%	3.90%	3.57%
All External Funds - Capital Gains/Losses	-9.72%	-7.67%	-7.05%
Total Investments - Income Only Return	1.95%	1.28%	0.96%



- Notes**
- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
 - Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
 - Credit scores are calculated as AAA = 1, AA+ = 2, etc.
 - Volatility is the standard deviation of weekly total returns, annualised.

6.2 The following chart compares the income return achieved by all the Arlingclose clients to the end of June and this shows that the Kent return of 1.95% for the last 12 months is one of the higher returns.



Alison Mings
Treasury and Investments Manager
20 August 2020

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Investments as at 31 July 2020

1. Internally Managed Investments

1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount £	Interest Rate	End Date
Fixed Deposits	Cornwall Council	10,000,000	0.10%	03/09/20
Fixed Deposits	Thurrock Council	10,000,000	0.43%	03/09/20
Fixed Deposits	Thurrock Council	10,000,000	0.40%	03/08/20
Fixed Deposits	Woking Borough Council	5,000,000	0.30%	15/12/20
Fixed Deposits	Conwy County Borough Council	3,000,000	0.30%	21/12/20
Fixed Deposits	Conwy County Borough Council	5,000,000	0.20%	31/12/20
Fixed Deposits	Conwy County Borough Council	3,000,000	0.30%	31/12/20
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	14,000,000	0.01%	07/08/20
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	13,000,000	0.01%	22/07/20
Total Local Authority Deposits		73,000,000		
Call Account	National Westminster Bank plc	18,250,000	0.01%	
Total Call Account Funds		18,250,000		
Registered Provider	£10m loan facility – non utilisation	10,000,000	0.40%	31/03/23
Money Market Funds	Federated Short-term Sterling Prime Fund GBP KCC	9,981,720	0.50%	
Money Market Funds	SSgA GBP Liquidity Fund (Stable NAV)	9,991,678	0.01%	
Money Market Funds	HSBC Sterling Liquidity Fund	14,994,234	0.09%	
Money Market Funds	LGIM Sterling Liquidity Fund 4 KCC	14,957,389	0.13%	
Money Market Funds	Insight Liquidity Funds PLC	14,772,921	0.03%	
Money Market Funds	Aberdeen Liquidity Fund (Lux) KCC	14,992,215	0.42%	
Money Market Funds	Deutsche Managed Sterling Platinum	9,982,305	0.11%	
Total Money Market Funds		89,672,464		
Equity and Loan Notes	Kent PFI (Holdings) Ltd	2,135,741		n/a
Icelandic Recoveries outstanding	Heritable Bank Ltd	189,485		n/a

1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal	Coupon Rate	Maturity Date
		£		
Fixed Rate Covered Bond	Bank of Scotland - Bonds	4,600,813	1.71%	20/12/2024
Fixed Rate	National Australia Bank - Bonds	4,978,564	1.35%	10/11/2021

Appendix 2

Covered Bond				
Fixed Rate Covered Bond	Leeds Building Society Bonds	4,204,589	1.29%	17/04/2023
Fixed Rate Covered Bond	Santander UK - Bonds	3,133,306	0.65%	14/04/2021
Fixed Rate Covered Bond	Bank of Nova Scotia Bonds	4,993,773	0.88%	14/09/2021
Fixed Rate Covered Bond	National Australia Bank - Bonds	3,001,266	1.10%	10/11/2021
Floating Rate Covered Bond	TSB Bank - Bonds	2,503,153	0.90%	15/02/2024
Floating Rate Covered Bond	Lloyds - Bonds	2,502,009	0.35%	27/03/2023
Floating Rate Covered Bond	Lloyds - Bonds	2,502,681	0.34%	27/03/2023
Floating Rate Covered Bond	Nationwide Building Society - Bonds	3,997,690	0.78%	10/01/2024
Floating Rate Covered Bond	Lloyds - Bonds	4,500,000	0.66%	14/01/2022
Floating Rate Covered Bond	Australia and New Zealand Banking group - bonds	3,000,000	0.75%	24/01/2022
Floating Rate Covered Bond	Santander UK - Bonds	2,002,532	0.76%	12/02/2024
Floating Rate Covered Bond	Nationwide Building Society - Bonds	4,503,315	0.90%	12/04/2023
Floating Rate Covered Bond	Bank of Montreal - Bonds	5,003,686	0.92%	17/04/2023
Floating Rate Covered Bond	Santander UK – Bonds	3,750,762	0.88%	13/04/2021
Floating Rate Covered Bond	Lloyds - Bonds	5,004,734	0.35%	27/03/2023
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce - Bonds	5,018,348	0.85%	10/01/2022
Floating Rate Covered Bond	Santander UK - Bonds	5,002,167	0.49%	16/11/2022
Floating Rate Covered Bond	Nationwide Building Society - Bonds	5,584,619	0.88%	12/04/2023
Total Bonds		79,788,088		

Total Internally managed investments	£ 263,035,699
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2. Externally Managed Investments

Investment Fund	Book value	Market Value at	12 months return to	
		31-July-20	31-July-20	
	£	£	Income	Total
CCLA - Diversified Income Fund	5,000,000	4,901,628	3.19%	-2.63%
CCLA – LAMIT Property Fund	60,000,000	55,387,364	3.92%	-4.52%
Fidelity Global Multi Asset Income Fund	25,038,637	24,762,914	5.71%	-5.71%
Investec Diversified Income	10,000,000	9,895,587	2.98%	1.93%
Kames Diversified Monthly Income Fund	20,000,000	18,752,946	3.59%	-5.39%

Appendix 2

M&G Global Dividend Fund	10,000,000	10,031,997	3.18%	-9.07%
Pyrford Global Total Return Sterling Fund	5,000,000	4,891,857	1.84%	-0.60%
Schroder Income Maximiser Fund	25,000,000	15,898,144	6.58%	-23.68%
Threadneedle Global Equity Income Fund	10,000,000	9,197,600	2.93%	-11.75%
Threadneedle UK Equity Income Fund	10,000,000	8,104,092	3.45%	-13.59%
Total External Investments	180,038,637	161,824,129	4.19%	-7.93%

3. Total Investments

Total Investments	£424,859,827
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GLOSSARY

Local Authority Treasury Management Terms

Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and Minimum Revenue Provision (MRP).
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from bail-in.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee, measured on a harmonised basis across the European Union
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Equity	An investment which usually confers ownership and voting rights
Short-dated	Usually means less than one year

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By: Amanda Beer – Corporate Director - People and Communications
To: Governance and Audit Committee
Date: 8th October 2020
Subject: KCC Annual Customer Feedback Report 2019/20
Classification: Unrestricted

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

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

1. Introduction

- 1.1 This is the Council's tenth annual report on compliments, comments and complaints. This report reflects the changes requested by Governance and Audit Committee last year. This includes more qualitative information and how we have applied lessons learned from cases that have been upheld.
- 1.2 For the purposes of this report customer feedback only relates to those comments, compliments and complaints received from members of the public and our external customers. It does not include internal feedback between departments or contractors.

2. Progress in refining practices within KCC

- 2.1 This year we are able to benchmark performance from the previous year using the customer feedback system, as it marks two full years of having all cases collated in one place. We have seen a rise in volumes of feedback as predicted, in part due to the methodical recording of cases, but also because customers are more aware of their right to raise issues with the Council for investigation.
- 2.2 We are seeing an increase in customers raising their concerns directly with us using our online form representing a good upwards trend in online participation.
- 2.3 This year training has been developed for staff in Children, Education and Young People's Directorate. The focus of the training is to equip staff with the tools to confidently respond to customers, this included covering basic customer service skills, example responses and tips for dealing with difficult customers. In addition, an E-learning has been developed and launched for Highways, Transportation and Waste Staff.

- 2.4 Customer Feedback processes were subject to an internal audit this year. The audit found that ‘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.’ And that there were ‘good’ prospects for improvement as; ‘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’.
- 2.5 The Customer Feedback Forum has been reinstated and meets quarterly to discuss best practice, performance and system developments.

3. Overview of Customer Feedback Received

- 3.1 A compliment is an expression of thanks or congratulations or any other positive remark. (Internal compliments are excluded from this process).
- 3.2 A comment is a general statement about policies, practices or a service as a whole, which has an impact on everyone and not just one individual. A comment can be positive or negative in nature. Comments may question policies and practices, make suggestions for new services or for improving existing services.
- 3.3 A complaint is an expression of dissatisfaction, whether justified or not and however made, about the standard or the delivery of a service, the actions or lack of action by the Council or its staff which affects an individual service user or group of users. This is consistent with the definitions used by other local authorities.
- 3.4 The following table gives an overview of the feedback received by KCC as a whole compared with the previous year. The increase in volumes compared to the last year can largely be attributed in part to more rigorous reporting and customers more aware of their right to complain.
- 3.5 There is still more we can be doing to record compliments however services admit that these do not take precedent and often go unrecorded. We will work over the next year to find ways to make it easier to record.

Table 1 – Feedback received by KCC compared with previous year

Year	Complaints (Stage one)	Comments	Compliments	Local Government and Social Care Ombudsman complaints
2019/2020	5,867	480	1,324	218
2018/2019	4,451	542	1,416	179
Difference in volume	1,416	-62	-92	33
% increase/decrease	32% Increase	11% decrease	6% decrease	22% increase

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

3.6 Cases received at stages 1 (local resolution)

Table 2 - Cases received at stages 1 (local resolution)

Stage 1	Adults Social Care and Health*	Children Young People and Education	Growth Environment and Transport	Strategic and Corporate Services	Total
2019/2020	1,092	1,044	3,611	119	5,867
2018/2019	777	862	2,658	154	4,451
Difference in volume	315	183	953	-35	1,416
% increase/decrease	41% increase	21% increase	36% increase	23% decrease	32% increase

3.7 We have seen an increase across the majority of the Directorates, this year there has been a number of policy changes.

3.8 Adult Social Care and Health received an increase in complaints regarding delays in processing Blue Badge applications. Changes in the eligibility criteria to take into account hidden disabilities, generated a rise in applications requiring additional assessment.

3.9 Growth Environment and Transport had an increase in complaints across the Directorate. Additional complaints have been received relating to the Highways Travel Saver Pass, although there has been no single contributing factor.

3.10 Overall we have seen a 32% increase in the number of complaints received at stage one.

Table 3 – Feedback received at Stage 2 compared with the previous year

Stage 2	Adults Social Care and Health*	Children Young People and Education	Growth Environment and Transport	Strategic and Corporate Services	Total
2019/2020	2	158	86	9	255
2018/2019		107	65	7	166
Difference in volume	2	51	21	2	89
% increase/decrease		48% increase	32% increase	29% increase	32% increase

*ASCH operate a 2-stage process with the Local Government Ombudsman acting as the second stage

3.11 We are seeing a like for like increase in the volume of those complaints received at stage one and two, with both seeing a 32% increase on the previous year.

3.12 Cases closed by Directorate at Stage 1

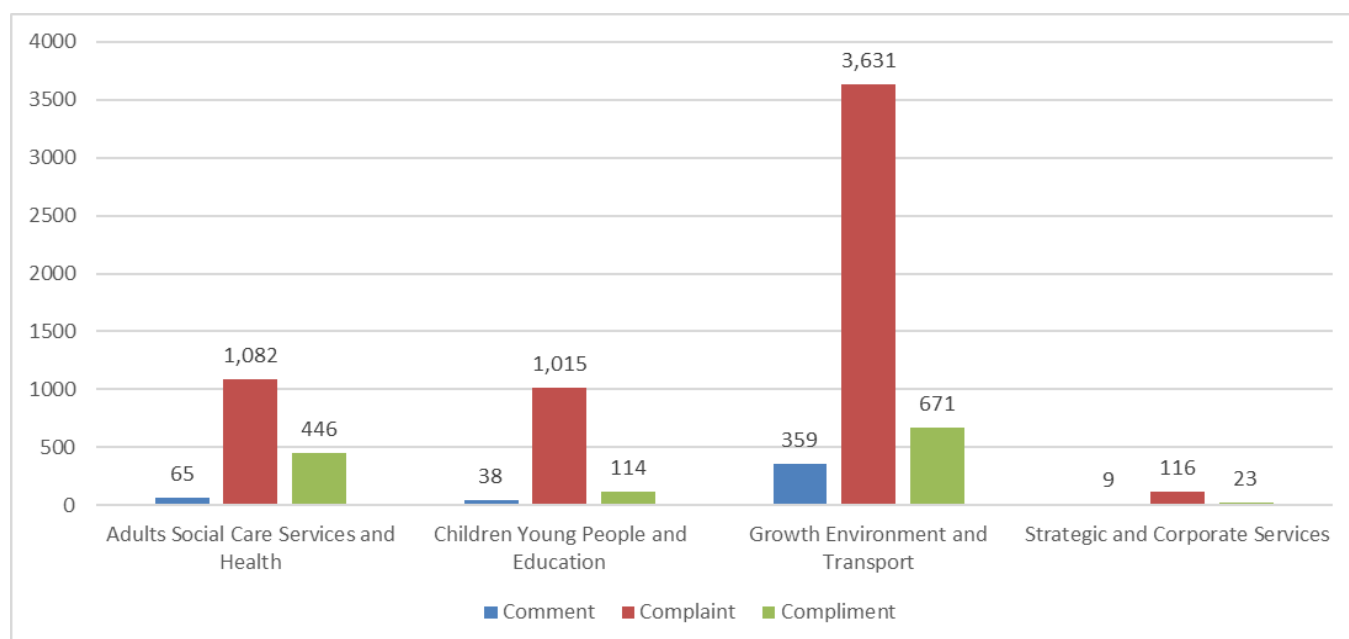
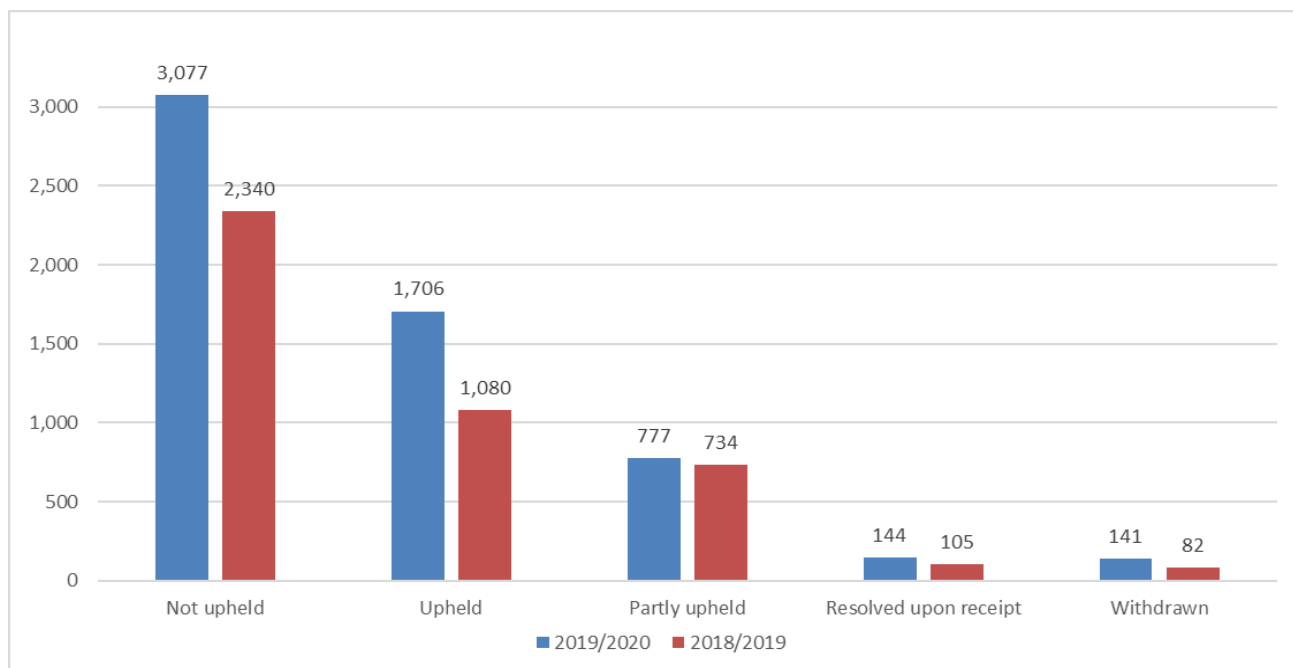


Table 4 - Cases closed by Directorate at Stage 1

	Comment	Complaint	Compliment	Total
Adults Social Care Services and Health	65	1,082	446	1,593
Children Young People and Education	38	1,015	114	1,167
Growth Environment and Transport	359	3,631	671	4,661
Strategic and Corporate Services	9	116	23	148
Total for 2019/20	471	5,844	1,254	7,569
Totals for 2018/19	554	4,341	1,481	6,376
% increase/ decrease	15% decrease	35% increase	18% decrease	19% increase in feedback closed

3.13 Case outcomes at Stage 1*



*Number of cases closed will not equal the number received

Table 5 – Stage one - cases not upheld, upheld, partly upheld and resolved upon receipt

Year	Not upheld	Upheld	Partly upheld	Resolved upon receipt
2019/2020	3,077	1,706	777	144
%	54%	30%	14%	2%
2018/2019	2340	1080	734	105
%	55%	25%	17%	3%

3.14 Of those upheld vs not upheld cases we are seeing 30% upheld this year compared with 25% the previous year at stage one.

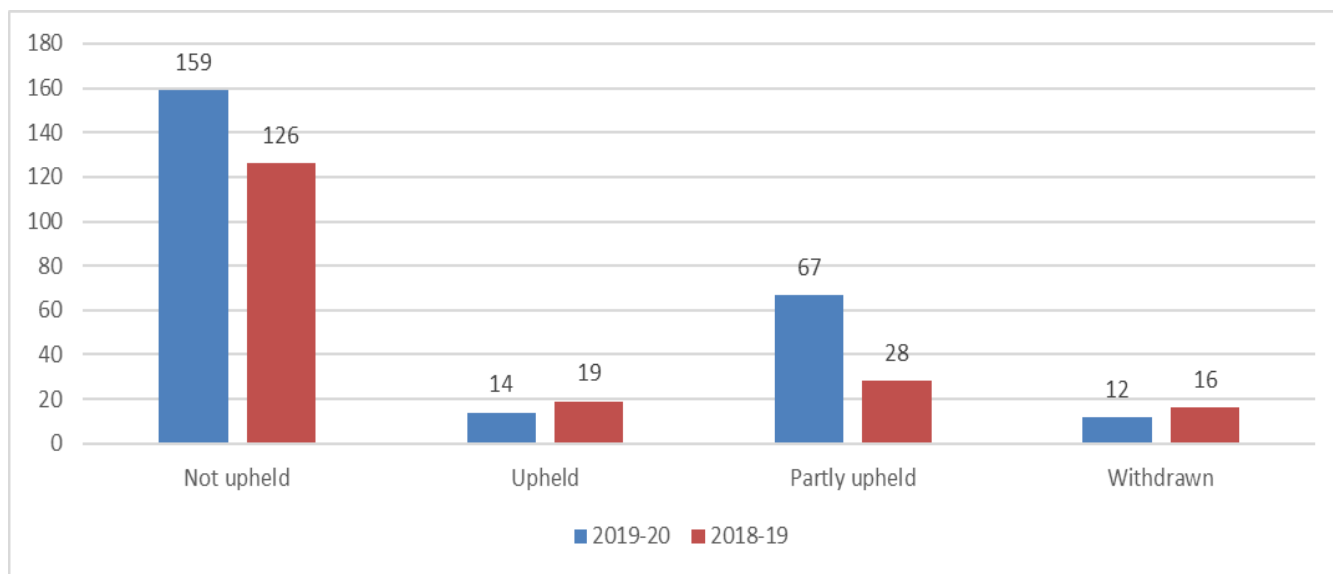
3.15 An example of a not upheld case.

A customer disagrees with a decision the Council has made, an example of this could be eligibility for a Blue Badge.

In these circumstances we would complete a thorough investigation to ensure that we have followed the correct published process and applied the relevant policies, as well as ensuring no special circumstances apply. Each case is always considered on its own merit. In situations where there is deemed to be no fault on behalf of the Council in the way a decision was made, we will inform customers of the steps taken and what their options are if they remain unhappy at this stage.

3.16 We also had 141 complaints withdrawn this year. As the number is high, a review was conducted and training was given to the services to ensure that this is used appropriately. There are cases where this was being used when a complaint was successfully resolved with a phone call. We expect this number to reduce in the next year.

3.17 Case outcomes at Stage 2*



*Number of cases closed will not equal the number received

Table 6 – Stage two – Not upheld, upheld, partly upheld, resolved upon receipt

Year	Not upheld	Upheld	Partly upheld	Resolved upon receipt
2019/2020	159	14	67	12
%	63%	6%	26%	5%
2018/2019	126	19	28	16
%	67%	10%	15%	8%

3.18 Of those upheld vs not upheld cases we are seeing 6% upheld this year compared with 10% the previous year at stage two. However, there is an increase in the number of those partly upheld, this is where there are some areas of fault identified on the Council in the complaints raised but not in all the issues raised.

3.19 The below tracks the other types of feedback received by the Council including Member and MP enquiries and general comments compared with the previous year.

Table 7 – Volumes received for other types of feedback.

	Member/MP enquiry	Enquiry (includes Ask a Kent Librarian)	Informal Concerns	Representation
2019/20	1,035	14,424	234	3
2018/19	1,371	14,734	105	10
Difference	-336	-310	129	-7

3.20 The decrease in Member/MP enquiries is due to errors in the recording of enquiries. 482 enquiries have been identified where the source is from an MP or a Council Member. Additional training has been provided to staff to ensure that Member Enquiries are recorded correctly going forward.

3.21 A representation is a procedure for cases where a complainant wishes to complain about something which is eligible for progression through the statutory Children Act complaints procedure, however there is something else in progress which prevents them from having it accepted i.e. Section 47 child protection enquiries, legal proceedings, a Child and Family Assessment, Tribunal, disciplinary etc.

Table 8 - Reasons for complaints this year

Full breakdown for 2019/20*

Year	Breakdown	Communications or Information	Equalities & regulatory	Not for KCC	Policy & procedure	Service failure	Service quality	Staff conduct cause	Value for money or disputed charges	Total
19-20	Total	826	81	63	929	2,158	1,263	520	270	6,110
	% of total complaints	14%	1%	1%	15%	35%	21%	9%	4%	
18-19	Total	594	75	26	737	1660	731	448	203	4474
	% of total complaints	13%	2%	1%	16%	37%	16%	10%	4%	

*Some cases will have more than one reason for the complaint

3.21 Complaint reasons continue to follow a similar theme to the previous year.

Table 9 – Breakdown of reasons for upheld* complaints by Directorate Stage one and two**

Complaint reason	Adults Social Care Services & Health	Children Young People & Education	Growth Environment & Transport	Strategic & Corporate Services	Total	%
Communication or Information	118	32	79	10	225	13%
Equalities & regulatory	4	8	5	1	18	1%
Issues with service	10	5	1	0	14	1%
Policy & Procedure	20	22	42	0	78	4%
Service Failure	179	48	723	15	961	56%
Service quality	20	17	207	8	241	14%
Staff Conduct	13	18	59	0	93	5%
Value for Money or disputed charges	57	4	14	0	74	4%
Total	421	154	1133	39	1747	
%	24%	9%	65%	2%		

*table only includes upheld complaints and not those partially upheld

**some complaints will have multiple reasons as to why they were upheld

3.22 Example of upheld complaint

We received a number of complaints relating to potholes on the public highway. When a pothole is reported, we provide information about the expected timescales within which we aim to complete repairs. In some cases, these works may take additional time due to issues beyond our control such as weather conditions or the need to prioritise emergency repairs.

Where we have failed to complete the repair within the timescale provided, we will record the complaint as upheld with Service Failure as the reason.

- 3.23 Adult Social Care and Health upheld 127 complaints relating to service failure following delays in processing Blue Badge applications. A significant number of applications were received following a change to the criteria, which impacted on the number of complaints upheld as we were unable to meet published timescales. This compares with 18 in the previous financial year. Additional resources have been put in place to deal with applications requiring specialist assessment. We have since seen a reduction in the number of complaints received for this service.
- 3.24 The Corporate Director of Childrens, Young People and Education (CYPE) commissioned training for all staff involved in responding to complaints to help them to respond to customers confidently, manage customer expectations and to be empathetic in our responses. This training was delivered by the Kent Communications Delivery Officer and the Complaints Manager for CYPE. Over 200 people attended the sessions and more are planned for 2020/21.
- 3.25 There are increases in upheld service failure complaints across the Growth Environment and Transport Directorate. The largest significant increase is within the Public Transport team 129 complaints were upheld due to service failure compared to 20 for the previous financial year. This followed a policy change that allowed customers to pay for their Travel Saver Pass over 8 months
- 3.26 Strategic and Corporate Services (SCS) had a 23% drop in complaints received for 2019/2020. Service Failure remains the most significant cause for complaints. SCS services are usually internally facing, complaints and compliments between services are not reported as part of this report.

4. Compliance with standards

4.1 KCC is committed to acknowledging any complaints received within 3 working days and to provide the customer with a response within 20 working days. As a whole KCC **responded to 85%** of complaints within corporate timescales which compares to 84% the previous year.

Table 10 - Delay reasons

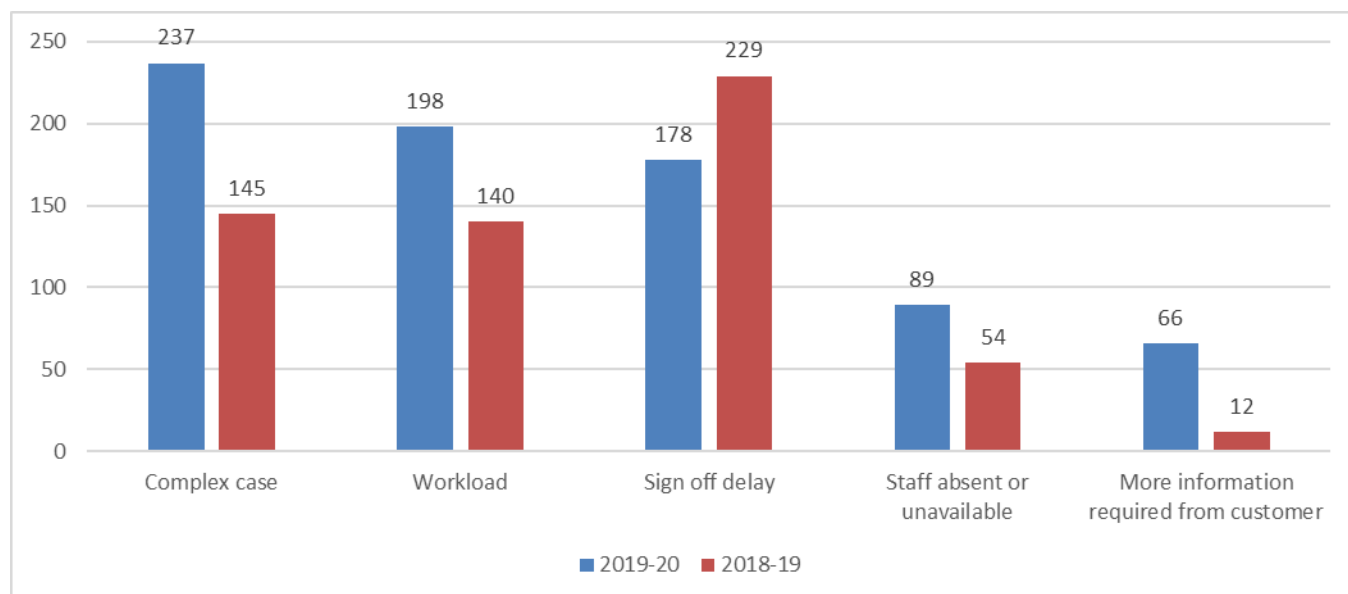


Table 11 - Top five overall delay reasons

	Complex case	Workload	Sign off delay	Staff absent or unavailable	More information required from customer
2019/20	237	198	178	89	66
2018/19	145	140	229	54	12
% of total complaints rec'd	4%	3%	3%	1%	1%

4.2 The above table shows the overall delay reason cited alongside the percentage of complaints that represents the number of total complaints received. Complex reason is the most cited reason. In Adult Social Care, The Local Authority Social Services and National Health Service Complaints (England) Regulations 2009 gives provision for customers and the complaints team to set the timescales for responding, this can be up to 6 months for the most complex of cases, this means that complaints will often not meet the 20 working day KCC standard. This is because an agreement with the customer has been formed to allow for more time to investigate and respond.

- 4.3 In addition, Mental Health complaints have an agreed 30 working day response time due to many requiring a joint response from Kent and Medway Partnership Trust. This is reviewed regularly.
- 4.4 More work is being carried out to ensure that these timescales are recorded appropriately, so that they can be reported within this report as exceptions to the 20 working day rule.

Table 12 - Top three delay reasons by directorate

Adults Social Care and Health

	Complex case	Sign off delay	Workload
2019/20	141	101	82
2018/19	52	128	36
% of total complaints rec'd by Directorate	13%	9%	7%

Children Young People and Education

	Complex case	Sign off delay	Workload
2019/20	53	63	56
2018/19	52	59	61
% of total complaints rec'd by Directorate	5%	6%	5%

Growth Environment and Transport

	Staff absent or unavailable	Workload	Complex case
2019/20	74	58	33
2018/19	25	39	37
% of total complaints rec'd by Directorate	2%	2%	1%

Strategic and Corporate Services

	Complex case	Joint response delay	Workload
2019/20	10	4	2
2018/19	4	0	4
% of total complaints rec'd by Directorate	4%	2%	1%

5. Customer communications channels

- 5.1 Information on 'How to complain' is available on our website and on our Complaints, Comments and Compliments leaflets. The public can provide feedback to the Council through a number of different ways including via our online form, phone, email and through Social Media.
- 5.2 The breakdown below indicates by percentage which channel customers have chosen to communicate feedback (compliments, comments & complaints) during 2019/2020 & 2018/2019.

Table 13 - Channels used to communicate compliments, comments, informal concerns and complaints

	Phone	Letter	Email	Comment card/ Face to Face	Online	Contact via Corporate Director, Member or MP	Other
2019/2020	23%	5%	28%	5%	39%	>1%	>1%
Volume	1,819	379	2,177	381	3,008	17	0
2018/2019	22%	9%	30%	12%	26%	1%	>1%
Volume	1,418	596	1,893	747	1,688	57	1

- 5.3 The above table shows that there has been a continual increase in the submitting of compliments, comments and complaints via our online systems. There has been an increase again in residents opting to use digital channels to contact us, the increase in those calling by phone is negligible but we will continue to monitor this to ensure that it is not a continuing trend. 67% of feedback received is now arriving digitally either by email, through social media or via the online form.

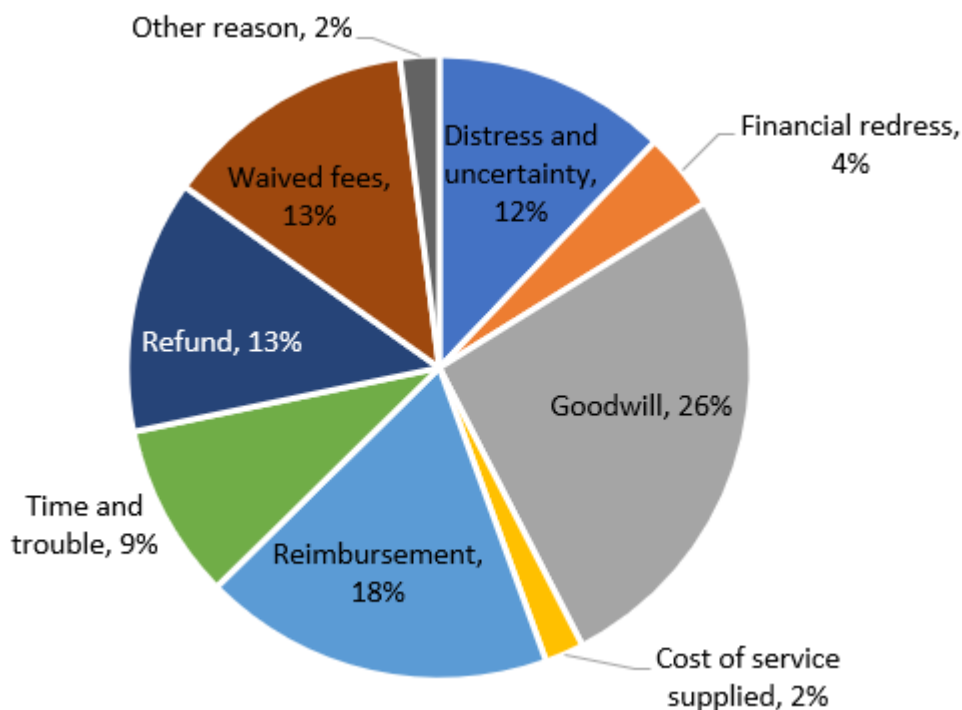
6. Compensation across all complaints received by KCC

- 6.1 In 2019/20, £81,952.79 was paid in compensation, settlements, changes to the amount we charge and waived charges as a result of complaints to the organisation this includes;
- £28,288.09 has been paid or waived as part of local resolution in Adult Social Care and Health.
 - £509.67 has been paid out by Strategic and Corporate services including Legal Services, Insurance and Property & Infrastructure.

- £1,340.56 has been paid out for Growth, Environment and Transport
- £5,415.27 has been paid out for Children, Young People and Education Directorate including Community Learning and Skills and Children Social Work Services
- £46,399.20 additional payments following Local Government and Social Care Ombudsman Decisions found against KCC.

6.2 This is an increase of £45,950.79 from 2018/19 when £36,002 was paid out in settlements or through waived charges. This increase largely related to Ombudsman rulings relating to Special Educational Needs where the penalties applied are significantly higher than other services. In addition, there were increases in Adult Social Care payments due to waived fees.

Table 14 - Compensation complaint reason chart



6.3 It is important to note that monies paid out during the 2019/20 financial year may relate to complaints recorded in previous years. This is due to the time that elapses between the date the complaint was lodged and achieving resolution. This is particularly true of Ombudsman complaints.

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

Complaints recorded in 2019/20

- 7.1 During 2019/20 the Monitoring Officer has responded to 8 complaints of alleged misconduct of the breach of the Elected Member Code of Conduct.

Table 15

Number of Complaints			
2019/2020	2018/2019	2017/2018	Outcome
8	12	10	No Action or resolved upon receipt. Dismissed by the Monitoring Officer
0	0	0	Action taken by party

8 The Local Government and Social Care Ombudsman complaints review 2019/20

Overview of Ombudsman

- 8.1 In cases where a customer is unhappy with the responses received about their complaint from the Council they can exercise their right to involve the Local Government and Social Care Ombudsman (LGSCO). The Ombudsman will investigate cases where a customer has exhausted the Council's own complaints policy and feel that their case has not been appropriately heard or resolved.
- 8.2 Each year, in July, the Ombudsman issues an annual review to each local authority. In his letter he sets out the number of complaints about the authority that his office has dealt with and offers a summary of statistics to accompany this.
- 8.3 The annual review statistics are publically available, allowing councils to compare their performance on complaints against their peers; copies of the Annual Review letter as well as any published Ombudsman complaints are issued to the Leader of the Council and Head of Paid Service to encourage more democratic scrutiny of local complaint handling and local accountability of public services.
- 8.4 Decision statements made in 2019/20 will have been published on the Ombudsman's website three months after the date of the final decision. The information published will not name the complainant or any individual involved with the complaint. Cases in which the complainant, despite redaction of names, can be easily identified are not published.

9 KCC Performance – Ombudsman complaints

- 9.1 It should be noted that there will be discrepancies between the volume recorded by the Ombudsman and the authority. This is due to the Ombudsman recording complaints that it does not progress to Kent County Council, as it is able to resolve the issue at first point of contact, either through referring the customer to the Council or it is identified as out of jurisdiction.
- 9.2 During 2019/20 KCC received a total of 218 decisions from the Ombudsman this included 61 referred back for local resolution. The full letter and Ombudsman statistics can be found in Appendix B.
- 9.3 We received no public reports in 2019/2020. Public reports are special reports in which the Ombudsman highlights where an injustice has occurred that may have impacted an individual significantly or where there may be evidence of wider impact on the public.
- 9.4 The level of complaints received by KCC for the size of population, volume of services and interaction is low. Each complaint provides an opportunity to learn from our customers and improve our systems and we need to focus on those complaints that are upheld to ensure that lessons are learned.
- 9.5 The Ombudsman's report noted that the national average that the Ombudsman upheld is **61%** of complaints they investigated; this is up nationally from 58% last year.
- 9.6 The average upheld rate for other County Councils increased from 64% to **66%**, Kent County Council's average is **59%**; this was a decrease from last year's 61% upheld
- 9.7 In **10%** of upheld cases the Council had provided a satisfactory remedy before the complaint reached the Ombudsman. This compares to an average of **9%** in similar authorities.
- 9.8 It is also worth noting that the number of KCC cases the Ombudsman investigated and upheld in Adult Social Care and Education and Children's Services is lower than the national average. In Adult Social Care 68% are nationally upheld compared to **67%** in KCC, and Education and Children's Services 72% are nationally upheld, compared with **54%** in Kent.

10 Local authority report – Kent County Council

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

Complaints and enquiries received

10.2 The following table examines the number of complaints received by the Ombudsman over the last three years against the LGSCO's service categories.

Table 16

	Adult care Services	Benefits and Tax	Corporate and other services	Education and children's services	Environmental services	Highways and transport	Housing	Planning and Development	Other	Total
2019/20	66	0	8	112	3	23	0	4	2	218
2018/19	56	0	11	83	8	17	0	1	3	179

Decisions made

10.3 The following table examines the number of complaints received by the Ombudsman over the last three years and decision category given by the LGSCO.

Table 17 – LGSCO complaints received

	<u>Detailed investigation carried out</u>		Advice given	Closed after initial enquiries	Incomplete / Invalid	Referred back for local resolution	Total
	Upheld	Not upheld					
2019/20	39	27	2	69	14	61	212
2018/19	36	23	2	59	11	45	176

10.4 Whilst the number of complaints heard by the Ombudsman is not necessarily an indicator of successful complaint handling, it can be noted that the number of complainants exercising their right to escalate to the Ombudsman has reduced in the last 2 years.

11 Ombudsman Complaints – Themes and Outcomes

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

Table 18 - Children, Young People and Education

	Upheld	Not upheld	Closed: out of jurisdiction/no further action or withdrawn	Premature	Total
Children Social Work Services	7	6	17	4	34
Kent Test/ School Admission appeals	2	4	3	0	9
Home to School Transport/ Free School Meals	0	5	4	0	9
Special Educational Needs	10	1	5	5	21
The Education People	1	0	0	0	1
Community Learning and Skills	1	0	0	0	1
Total	21	16	29	9	75

Children Social Care - Not upheld example – 19 000 816

The complaint

Mr X complains the Council failed to investigate or take action on concerns he raised with it about the actions of his ex-wife and her partner towards his children. He says information in the Council's assessments about the situation is wrong and biased against him. He says this means his children are suffering.

Outcome

The Council has carried out two child and family assessments of Mr X's children's situation. Both assessments considered the issues that the law requires and followed the process required by the Children Act. They included discussion with other professionals working with the family including the police and previous social workers. They included the social worker meeting with the children alone to get their views.

Mr X continues to be seriously concerned the Council is biased against him and that it only believes Ms Z's evidence. Mr X had the opportunity to engage in the assessments but did not do so. The Council considered what Mr X had said in writing as part of its assessments.

The Council concluded, based on the assessments, it did not have concerns for the children's emotional wellbeing or care. It decided the children's needs are being met and do not meet the threshold for it to act further. There is no administrative fault in how the Council carried out the assessments. We therefore cannot question the Council's decision.

The Council has written to Mr X explaining how he should raise concerns in future but asking him to restrict his contact. It has made clear how he can continue to report safeguarding concerns. The Council has explained what action it will take to restrict future contact if it continues. There was no administrative fault in its correspondence with Mr X about future contact and it correctly followed its persistent complaints policy.

I have completed my investigation. The Council is not at fault.

Children Social Care - Upheld example - 18 015 096

The complaint

Mrs X complained about the Council's decision to de-register her and her husband Mr X, as foster carers. She said the Council had failed to:

- provide them with suitable training and support; and
- consider the recommendations of the Independent Review Mechanism (IRM).

Mrs X and Mr X stated they had suffered stress, illness, lack of sleep, worry, and financial loss following the incident that led to their de-registration.

Outcome

The Ombudsman is not an appeal body. We cannot say whether a Council's decision is right or wrong, only check that it has considered all relevant information in making its decision.

The IRM Panel felt the Council could have provided Mr and Mrs X more training and support with Y and Z when they were struggling with their behaviour. The Council has accepted fault and partially upheld this part of Mr and Mrs X's complaint. The Council has apologised and made several improvements to the Fostering Service as explained below;

In response to my enquiries the Council said it had learnt from Mr and Mrs X's complaint and had:

- reviewed its training offer for foster carers to ensure all carers and staff are aware of the training and support packages available to them;
- commissioned extra training for foster carers who work with children with significant behavioural difficulties;
- created a Placement Stability Team where foster carers can access immediate clinical psychology advice at times of crisis; and
- started monitoring all allegations and complaints monthly to ensure it is working within timescales and to identify any delays.

This remedies the injustice caused.

The Ombudsman's role is not to speculate about what might have happened but to consider what did happen. It is not possible for the Ombudsman to say whether Mr X would have smacked Y if the Council had provided extra support and training.

The IRM Panel recommended Mr and Mrs X should continue to foster. The Council chose to de-register Mr and Mrs X as foster carers. The Council was not bound by the IRM's Panel recommendations and was entitled to make that decision. It has provided reasons for it. The Ombudsman cannot question a Council's decision if taken without fault. The Council was not at fault.

The Council was at fault for failing to provide Mr and Mrs X the training and support needed as foster carers. However, it was not at fault in its decision to de-register them. The Council has already remedied the injustice caused, therefore, I have completed my investigation.

Education - Not upheld example – 19 004 268

The complaint

The complainant, whom I refer to as Mrs X, complains the admissions appeals panel did not properly consider her son's appeal for a grammar school place. Mrs X says:

- The school was not oversubscribed.
- Her son would be able to cope with the pace and level of work at a grammar school based on his previous test scores.
- The panel did not consider her son had an older sibling at the school.

Outcome

The role of the Ombudsman is to consider procedural fault. We do not question the professional judgement of the appeal panel, unless it is flawed by procedural fault. This means I cannot replace the panel's views about whether Y is at the required standard for grammar school or should be offered a place at school Z, with my own views. Provided the panel made its decision in a way which is procedurally sound, I cannot criticise the judgment it eventually reached.

Mrs X says the panel did not properly consider her appeal. I do not find fault in how the panel considered the appeal. The Clerk's notes show the panel considered the points Mrs X presented as part of the appeal and decided Y was not of the required standard for admission to a grammar school. While I acknowledge Mrs X disagrees with the panel's decision, it was a decision it was entitled to make.

From the evidence I have seen, school Z did not fill all its school places. The Code says grammar schools may leave places unfilled if there are insufficient eligible applicants. As the panel concluded Y was not a grammar school pupil, the panel did not need to consider whether admitting Y to school Z would cause prejudice to school Z.

Mrs X says the Council did not refer to her other child attending school Z in its decision letter and this was part of the admissions criteria. The Clerk's notes show the panel considered this as it is listed under a key point of the appellant's case. However, in response to my enquiry about this point, the Council said the panel did not refer to the sibling link in its decision letter as a sibling link did not make any difference in the outcome of the appeal. I find this reasonable as the panel found Y not to be a grammar school pupil.

I have completed my investigation and found no fault in how the admissions appeal panel considered the appeal.

Education - Upheld example – 18 010 476

The complaint

Mr X complained about:

- a. the delays by the Council in transferring his child, C, from a Statement of Special Educational Needs (Statement) to an Education Health and Care Plan (EHC Plan) and then further delay in the annual review; and
- b. the Council's failure to act on professional advice about C's need for a communication support worker and the consequent failure to include such support in C's EHC Plan.

Mr X says as a result of the Council's failures C has been unable to achieve their full academic potential and has felt isolated at school. He says he and his wife have had to put more work into the process than they should have had to and been put under a lot of pressure.

Outcome

The Council has agreed that within one month of this decision it will pay Mr and Mrs X £200 to acknowledge the frustration caused by its delays in transferring C from a Statement to an EHC Plan and in deciding to maintain C's EHC Plan after the first annual review.

I have now completed my investigation because the Council's action will remedy the injustice caused by its fault

Table 19 - Growth, Environment and Transport

	Upheld	Not upheld	Closed: out of jurisdiction/no further action or withdrawn	Premature	Total
Environment, Planning and Enforcement	1	0	0	2	3
Highways, Transportation and Waste	1	3	13	0	17
Total	2	3	13	2	20

Not Upheld example – 19 004 288

The complaint

Mr X and Ms Y say flood water from the highway has run onto their property for last four years. They complain about works the Council carried out to the highway and the entrance to their driveway to alleviate the flooding. They complain that;

- The Council installed kerb stones to the west side of their driveway which narrowed the entrance. This causes access issues.
- Their son's car is low to the ground gets grounded because of the works. They complain the contractors did not take account of this, although they were made aware in advance.
- The Council spread spoil from the works on a grass verge in front of their property which made it unsightly.

Outcome

The Council has carried out works to address the issues Mr X and Ms Y complained of. This has addressed any injustice caused. As a result I discontinued my investigation and closed my file. The Council has taken action to address the concerns Mr X and Ms Y made. As a result, I discontinued my investigation.

Upheld example – 18 019 033

The complaint

The complainant, whom I shall refer to as Mr B, complains on behalf of his daughter and son-in-law (Mr and Mrs D) that the Council wrongly completed works to an established beech hedge at their property. Mr B also complains about the Council's response to his subsequent complaint which he says included unfounded allegations about his conduct. Mr B further complains about additional works to the hedge

following a partial collapse resulting from the first works and the Council's response to his report about this.

Mr B says because of the Council's fault, the remaining hedge was unsightly with large gaps and possibly damaged in places. Mr B says this meant the property was exposed to traffic noise, pollution and light nuisance and suffered from a significant reduction in its privacy. The hedge was also top heavy in places and represented a continuing safety hazard which required further works. Mr B says he and his family have been caused unnecessary costs, distress and time and trouble.

Outcome

In addition to the Council's offer of further hedge trimming works as set out above it will:

- write to Mr and Mrs D to apologise for the fault identified above within one month of my final decision;
- pay Mr and Mrs D £200 for their distress, time and trouble and temporary loss of amenity within one month of my final decision;
- pay Mr B £50 for his time and trouble within one month of my final decision;
- review its system to ensure information is properly shared and recorded between relevant officers and teams to avoid a recurrence of the fault identified and provide evidence of this review to the Ombudsman within three months of my final decision; and
- remind relevant officers of the need to ensure there is a proper record of substantive telephone calls and inspections and provide evidence of this action to the Ombudsman within one month of my final decision.

Table 20 - Strategic and Corporate Services

Upheld	Not upheld	Closed: out of jurisdiction/no further action or withdrawn	Premature	Total
0	0	5	1	6

Table 21 - Adult Social Care and Health

Upheld	Not upheld	Closed: out of jurisdiction/no further action or withdrawn	Premature	Total
16	8	18	4	46

Not Upheld example – 18 010 806

The complaint

The complainant (whom I refer to as Ms D) says the Council has incorrectly decided not to install a wet room in her home and says she needs to have a through floor lift installed.

Outcome

Ms D wants the Council to install a flush floor shower room and disagrees with its decision. I have not found evidence of fault by the Council in its assessments during 2018 and 2019. The evidence shows me that Officers followed the correct process. Two OT assessments have both concluded that Ms D cannot safely or easily access the first floor of her home and this needs to be resolved before her bathroom can be adapted. The Council also made further checks with Ms D's GP and had a technician assess the property to ensure it had fully considered matters. It remains the case that unless Ms D agrees to a through floor lift the Council will not adapt her bathroom. That is a decision the Council is entitled to make even though Ms D disagrees with it. The Ombudsman cannot question the validity of a decision in the absence of any procedural fault: that applies to this case.

I have completed the investigation and not upheld the complaint.

Upheld example – 18 017 980

The complaint

Mr X complained about the way the Council reviewed his care package. He says it removed the contingency from his direct payments without reviewing his care package. It also told Mr X it was stopping the direct payments for his gym membership before it reviewed his care package. Mr X says this has impacted on his well-being. Mr X says the review was carried out in an unprofessional manner. In addition, he complains the Council refused to increase Mrs X's care package when her needs changed and she required more support.

Outcome

Within one month of the final decision on this complaint, the Council has agreed to apologise to Mr X for the frustration and uncertainty caused by the lack of clarity and poor record keeping around the Panel's decision making.

Within two months of the final decision on this complaint, the Council has agreed to provide evidence to the Ombudsman of the revised Panel procedures ensuring it records:

- who was on the Panel;
- how it reached its decision to approve or decline each request; and
- how the applicant was to be informed of this.

12 LESSONS LEARNED

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

12.2 With regards to lessons learned across the Council, the following table shows a list of actions that have been recorded where they exceed 100 complaints.

Table 22 - Top remedy actions

Action taken	Stage 1
Arrange staff training or guidance	163
Change or review communications	143
Discuss at team meeting	169
Explanation	294
Formal apology	251
Provided service requested	143

12.3 Other actions taken include changing or reviewing services, a financial remedy and changing or reviewing policies or procedures.

12.4 We are seeing a greater emphasis on sharing the learning within Directorates with more training now available either on Delta or through bespoke sessions such as those delivered for CYPE.

12.5 Example of lessons learned

Complaint – Upheld. Apology and explanation

One common area for complaints is issues with the public highway. For example, the Council may need to take emergency action to close a stretch of road for the purpose of completing urgent repairs.

The effect of these closures is likely to have a significant impact on road users and residents in the affected area. In some cases, this can cause long periods of disruption, which often generates additional complaints.

The Council explores all available options to mitigate the effect of the closure but welcomes feedback from those affected. We investigate all complaints, to help us identify areas for improvement. Where we find fault, we will look to ensure that we provide an appropriate remedy, in some cases that is a formal apology and an explanation for our actions.

13 RECOMMENDATIONS

13.1 The Committee is asked to note the contents of this report for assurance.

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Appendix A – Directorate overview of Customer Feedback Received

Children, Young People and Education

All Feedback Reported

	Complaints (Stage One)	Comments	Compliments	Resolved Local Government and Social Care Ombudsman enquiries & complaints*
2019/20	1,044	43	113	75
2018/19	862	32	94	65
2017/18	666**	1101	190	53

*Excluding premature

The below table compares the number of complaints received in 2019/20 with those received in 2017/18 and 2018/19

Service	2017/18	2018/19	2019/20
Specialist Children Service/Children's Social Work Services	368	490	592
Community Learning & Skills (was Adult Education)	80	94	77
Education Services	218	259	351
The Education People	-	19	24
Total Complaints	666	862	1,044

Growth, Environment and Transport

All Feedback Reported

	Complaints (Stage one)	Comments	Compliments	Resolved Local Government and Social Care Ombudsman enquiries & complaints*
2019/20	3,611	361	664	20
2018/19	2658	486	828	16
2017/18	2054	509	1188	13

*Excluding premature

The below table compares the number of complaints received in 2018/19 with those received in 2016/17 and 2017/18

Service	2017/18	2018/19	2019/20
Environment, Planning and Enforcement	76	79	133
Economic Development	4	3	5
Highways and Transportation and Waste Management	1705	2059	3,147
Libraries, Registrations and Archives	269	517	326
Total Complaints	2053	2658	3,611

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

Adult Social Care and Health

All Feedback Reported

	Complaints (Stage One)	Comments	Compliments	Resolved Local Government and Social Care Ombudsman enquiries & complaints*
2019/20	1,092	65	518	46
2018/19	777	15	480	29
2017/18	625	118	357	36

*Excluding premature

The below table compares the number of complaints received in 2019/20 with those received in 2017/18 and 2018/19

Service	2017/18	2018/19	2019/20
Adult Social Care and Health	625	777	1,092
Total Complaints	625	777	1,092

Strategic and Corporate Services

All Feedback Recorded

	Complaints (Stage One)	Comments	Compliments	Resolved Local Government and Social Care Ombudsman enquiries & complaints*
2019/20	119	10	22	6
2018/19	154	6	11	4
2017/18	283	23	182	3

*Excluding premature

The below table compares the number of complaints received in 2018/19 with those received in 2016/17 and 2017/18

Service	2017/18	2018/19	2019/20
Finance	28	52	30
FOI	57	7	4
Gateways and Contact Point	53	55	28
Insurance *	62	5	2
Infrastructure, Property and Total Facilities Management	38	23	10
Other	45	12	45
Total Complaints	283	154	119

* There is a marked decrease in Insurance complaints as these now follow a different appeal process due to the scope of the Local Government and Social Care Ombudsman

Appendix B

Ombudsman Letter

22 July 2020

By email

Mr Cockburn
Head of Paid Service
Kent County Council

Dear Mr Cockburn

Annual Review letter 2020

I write to you with our annual summary of statistics on the decisions made by the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2020. Given the exceptional pressures under which local authorities have been working over recent months, I thought carefully about whether it was still appropriate to send you this annual update. However, now, more than ever, I believe that it is essential that the public experience of local services is at the heart of our thinking. So, I hope that this feedback, which provides unique insight into the lived experience of your Council's services, will be useful as you continue to deal with the current situation and plan for the future.

Complaint statistics

This year, we continue to place our focus on the outcomes of complaints and what can be learned from them. We want to provide you with the most insightful information we can and have made several changes over recent years to improve the data we capture and report. We focus our statistics on these three key areas:

Complaints upheld - We uphold complaints when we find some form of fault in an authority's actions, including where the authority accepted fault before we investigated. A focus on how often things go wrong, rather than simple volumes of complaints provides a clearer indicator of performance.

Compliance with recommendations - We recommend ways for authorities to put things right when faults have caused injustice. Our recommendations try to put people back in the position they were before the fault and we monitor authorities to ensure they comply with our recommendations. Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedies provided by the authority - We want to encourage the early resolution of complaints and to credit authorities that have a positive and open approach to resolving complaints. We recognise cases where an authority has taken steps to put things right before the complaint came to us. The authority upheld the complaint and we agreed with how it offered to put things right.

Finally, we compare the three key annual statistics for your authority with similar types of authorities to work out an average level of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

This data will be uploaded to our interactive map, [Your council's performance](#), along with a copy of this letter on 29 July 2020, and our Review of Local Government Complaints. For further information on how to interpret our statistics, please visit our [website](#).

It is pleasing that we recorded our satisfaction with your Council's compliance in the cases where we recommended a remedy. However, it is disappointing that in eight cases, remedies were not completed within the agreed timescales and we had to chase the Council to achieve compliance. While I appreciate the pressures local authorities are under, delays can add to complainants' injustice. Additionally, the actions you agree to take, and your performance in implementing them, are reported publicly on our website, so are likely to generate increased public and media scrutiny in future. I would ask the Council to reflect on the way it implements remedies, with a view to reducing any avoidable delay in the process.

Last year, I raised my concerns about your Council's failure to respond promptly to contact from my office. I am disappointed to report that my investigators have continued to note delays by your Council in responding to our enquiries. Of the 49 enquiry letters we sent to you this year we received a late response 33 times. And, mirroring last year's experience, my staff had to threaten to issue a witness summons to obtain the information requested. I want to reiterate my comments from last year and strongly encourage you to act now to ensure timely and complete responses are provided to my office.

Resources to help you get it right

There are a range of resources available that can support you to place the learning from complaints, about your authority and others, at the heart of your system of corporate governance. [Your council's performance](#) launched last year and puts our data and information about councils in one place. Again, the emphasis is on learning, not numbers. You can find the decisions we have made, public reports we have issued, and the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

I would encourage you to share the tool with colleagues and elected members; the information can provide valuable insights into service areas, early warning signs of problems and is a key source of information for governance, audit, risk and scrutiny functions.

Earlier this year, we held our link officer seminars in London, Bristol, Leeds and Birmingham. Attended by 178 delegates from 143 local authorities, we focused on maximising the impact of complaints, making sure the right person is involved with complaints at the right time, and how to overcome common challenges.

We have a well-established and successful training programme supporting local authorities and independent care providers to help improve local complaint handling. During the year, we delivered 118 courses, training more than 1,400 people. This is 47 more courses than we

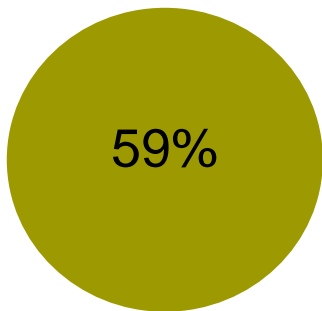
delivered last year and included more training to adult social care providers than ever before.
To find out more visit www.lgo.org.uk/training.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M King', with a horizontal line underneath.

Michael King
Local Government and Social Care Ombudsman
Chair, Commission for Local Administration in England

Complaints upheld



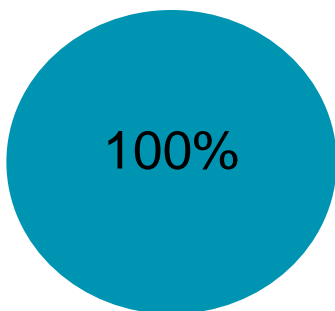
59% of complaints we investigated were upheld.

This compares to an average of **66%** in similar authorities.

39
upheld decisions

Statistics are based on a total of 66 detailed investigations for the period between 1 April 2019 to 31 March 2020

Compliance with Ombudsman recommendations



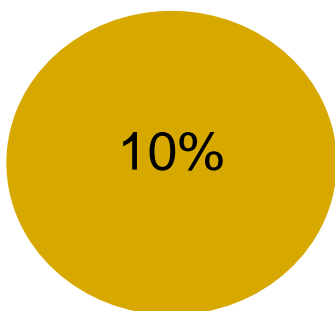
In **100%** of cases we were satisfied the authority had successfully implemented our recommendations.

This compares to an average of **100%** in similar authorities.

Statistics are based on a total of 26 compliance outcomes for the period between 1 April 2019 to 31 March 2020

- Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedies provided by the authority



In **10%** of upheld cases we found the authority had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **9%** in similar authorities.

4
satisfactory remedy decisions

Statistics are based on a total of 66 detailed investigations for the period between 1 April 2019 to 31 March 2020

By: Ben Watts, General Counsel (Monitoring Officer)
To: Governance and Audit Committee – October 2020
Subject: Annual Governance Statement 2020/21
Classification: Unrestricted

Summary: This report provides a copy of the Annual Governance Statement and an update on governance generally within the Council

FOR APPROVAL

1. In July 2018, as part of the activity ongoing to review the Council's constitution, Members agreed that Kent County Council should adopt the CIPFA/SOLACE "Delivering Good Governance in Local Government: Framework 2016 Edition" and make the necessary consequential changes to the Code of Corporate Governance and the Constitution.
2. In January 2019, Members of this Committee discussed the workings of the Governance and Audit Committee and the CIPFA/SOLACE framework amongst other things with the then Head of Internal Audit and the Monitoring Officer. As part of those discussions, it was recommended and subsequently agreed by Members that the Governance and Audit Committee should formally consider and approve the Annual Governance Statement.
3. Whilst the majority of the statement before Members relates to the financial year 2020/21, it is important that the document also represents the present governance challenges faced by the Council. Accordingly, the statement includes reference to a range of issues that have arisen since 1 April 2020 and, in particular, the impact of the Coronavirus pandemic on the Council. These issues will be fully and further reported as part of next year's statement to cover the 2021/22 financial year but it is important that they are reflected here.
4. Whilst the Committee has always had the opportunity to consider the AGS as part of the general recommendation, a specific recommendation is considered best practice and was therefore what Members sought for last year's process for the first time. This paper and the attached Annual Governance Statement represent the execution of that original instruction from Members and the learning from last year's discussion.
5. An Annual Governance Statement is required by law and reports publicly on the effectiveness of governance and control. It should be reviewed for its accuracy before being signed by the Leader and Head of Paid service. On recommendation from our new Head of Internal Audit, Kent County Council also requires the signature of the Section 151 Officer and the Monitoring Officer.

6. Members will be aware of the ongoing review of the Council's governance and activity in that regard has continued throughout the year. Through the AGS process, forthcoming activity has been identified by the Head of Paid Service, General Counsel and Head of Internal Audit which is reflected in the identified actions within the statement itself and the audit of the process. This will include further work reviewing the new process adopted this year which has provided additional information and considerable improvement but where additional work is required to hone and improve that process further to maximise the opportunities.

7. Members of the Governance and Audit Committee play a key and ongoing role in the governance of the County Council and this opportunity for annual reflection is reflected in the recommendations.

Recommendation:

The Committee is invited to discuss the paper and:

- i. NOTE the briefing from the Monitoring Officer and AGREE how the identified actions should be reported back to the Governance and Audit Committee
- ii. AGREE that the Monitoring Officer and Head of Internal Audit shall review the Annual Governance Statement process and update the Governance and Audit Committee in January 2021
- iii. APPROVE the Annual Governance Statement

Ben Watts
General Counsel
Tel No: 03000 416814
e-mail: benjamin.watts@kent.gov.uk

DRAFT FOR APPROVAL

Kent County Council – Annual Governance Statement 2019/20

Purpose of Statement

The purpose of this Annual Governance Statement (AGS) is to provide an overview of how the County Council's governance arrangements operated during the financial year 2019-20 and in the relevant period up to the signature of the statement. This statement forms part of Kent County Council's Statutory Accounts and it was published in draft before its presentation to the authority's Governance & Audit Committee for approval. The signatories of this statement on behalf of KCC are the Leader of the Council, the Head of Paid Service, the Section 151 Officer and the Monitoring Officer. The Head of Internal Audit is also required to provide an annual opinion to inform the AGS. All Corporate Management Team members input to and endorse the Annual Governance Statement before it is published.

The AGS provides an overview of the controls that are in place to manage key governance risks. In instances where key governance issues have been identified, detail of actions taken to make improvements and work still to be undertaken are documented in action plans. Kent County Council is required to produce an Annual Governance Statement under the regulations issued by Government. These regulations also determine the timetable for approval and publication. The authority is required to publish a statement which is in accordance with proper practice in relation to internal control.

In this year's statement, the mechanism for collecting information has been changed based upon the discussion at the Governance and Audit Committee in 2019. These changes have allowed greater focus on the key controls and a stronger discussion with Officers about maturity and development of governance. This approach to building the AGS means that, in places, the reader will see recognition of improvements that can and should be made. The changes also allow KCC to move towards a more dynamic assurance model. It has been necessary to reflect on the impact of Covid-19 on governance. The impact of the recent unprecedented times will be felt by many organisations and KCC has been required to make changes in the way governance processes operate in response to this.

Scope of responsibility

Kent County Council is responsible for ensuring that our services and operations are conducted in accordance with the law and proper standards. We have a specific responsibility to ensure that public money is used carefully and effectively and is properly accounted for. We also have a duty to continuously review and improve the way we work whilst offering services that are efficient and value for money.

What is governance?

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest, and accountable manner. It comprises systems and processes, cultures and values by which the Council is directed and controlled. The Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control.

The Code of Corporate Governance

Kent County Council's Code of Corporate Governance describes the principles applied by Kent County Council as the framework for good corporate governance, how we are achieving these, and the key policies and plans in place to support this. The Code is set out in KCC's Constitution and the six core underpinning principles are as follows:

- Principle 1 - Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a Vision for the local area.
- Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions
- Principle 3 - Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Principle 5 - Developing the capacity and capability of Members and Officers to be effective
- Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability

All Members have an important role to play acting on behalf of the Council and their residents. Officers serve the Council as a corporate body rather than any political group, combination of groups or individual member.

Kent County Council has a Code of Conduct that is adopted under Section 27 (12) of the Localism Act 2011. It is the responsibility of Members to comply with the provisions of this code and these provisions are set out in the authority's Constitution. The Monitoring Officer had already committed to further review the Code in 2020/21, which will now be informed by the new LGA Draft Code of Conduct issued in June 2020.

The Council's governance environment is consistent with the Code of Corporate Governance and the 2016 CIPFA guidance "Delivering Good Governance" framework. The Code of Corporate Governance is currently under review by the Head of Internal Audit, the Monitoring Officer and the independent Member of the Governance and Audit Committee.

KCC's Officers are required to adhere to the authority's Operating Standards which set out arrangements for the effective operation of the Council. The Standards bring essential management information together in one place, so all staff can carry out core management tasks effectively and consistently.

All staff are expected to live by three core values - the Kent Values. These values affect everything staff do with customers, partners and each other.

- Open - Acting with integrity, honesty and transparency; healthy attitude to risk; welcoming and expecting change and evolving technology; working in new ways; willing to learn; working as a whole-council and treating people fairly and with respect.
- Invite contribution and challenge - Working collaboratively and innovatively to find new solutions that put the interests and wellbeing of customers first; open to challenge and actively encouraging and expecting contribution.
- Accountable - Self-sufficient, taking personal and professional responsibility for our actions, the pace at which we work, performance and the council's money.

All employees are required to abide by the Kent Code (code of conduct), declare personal interests which may conflict with KCC's own interests and play their part in helping to eliminate discrimination by treating colleagues and customers with dignity and respect.

Members and Officers are expected to work together on a basis of mutual respect and trust. Members set the County Council's policy direction and Officers are responsible for implementing decisions taken and providing professional advice. KCC's Scheme of Delegation sets out the specific delegations allocated to Officers.

Kent Council Council's Committees are constituted of elected Members and are established to be advisory Committees of the Executive. Cabinet Committees consider the functions of the Council that are the responsibility of one or more Cabinet Members, together with related matters affecting Kent or its residents. The Council also has a number of other Committee's whose role is to scrutinise and oversee the actions and decisions of the Executive. The remit and membership of each Committee is set out on the County Council's website.

The County Council has appointed Statutory Officers namely the Head of Paid Service, the Monitoring Officer, the Section 151 Officer, Director of Adult Social Services, Director of Children's Services, and Director of Public Health and their functions are explained in KCC's Constitution.

Statement

How did we do?

Kent County Council continues to perform well and respond to increasing demand and financial challenges through its effective operation, political leadership, management, strategies and innovations. Whilst not wholly applicable to the period 2019/20, Covid-19 has presented significant response, recovery and financial challenges that the authority will continue to respond to. These have required Executive Members and Statutory Officers to intervene in order to protect the best interests of the residents of Kent and the statutory functions of the Council. The timing and prolonged nature of the Covid-19 crisis means that the authority must review several of KCC's existing approaches and strategies, including a recast of the 2020-21 budget. Governance is no different in this regard and will be a standing item for discussion at Selection and Member Services Committee.

Quarterly Performance Reports (QPR) are produced to inform Cabinet about key areas of performance for the authority and the direction of travel. At the end of Quarter 4 2019/20 it was reported that 23 of the 35 Key Performance Indicators achieved target (Green), 9 achieved and exceeded the floor standard however not the target to achieve Green (Amber). 3 KPIs did not meet the floor standard (Red). Whilst a positive direction of travel was seen throughout 2019/20, it is recognised that the impact of Covid-19 on 2020/21 reporting is likely to be significant and include

issues with the availability of data. It is anticipated that there will be a requirement to revise KPIs and the associated targets.

During the period 2019/20, '**Increasing Opportunities, Improving Outcomes**' was the authority's strategic statement which set out KCC's vision for a five-year period ending in 2020. The vision described how KCC seeks to improve lives by ensuring that every pound spent in Kent is used to deliver better outcomes for the county's residents, communities and businesses. **Annual Reports** were developed for each year during the period of the plan to illustrate progress and these are available on KCC's public facing website. The report for 2019 was presented to full Council and noted on 17th October 2019.

On 17th February 2020, the public consultation on a new five-year plan closed. The plan was brought together by working with and listening to our residents, young people, local businesses, the voluntary and community sector and staff. Engagement levels were excellent, and the valuable feedback received helped to evolve thinking further.

Unfortunately, because of the Covid-19 emergency the new proposed plan was not launched as the implications of the pandemic have identified a need to re-evaluate the strategy based on the new challenges and longer-term recovery considerations the authority now faces. KCC will have to issue a strategic position and vision that is reflective of the current circumstances. An Interim Strategic Plan is being developed for December 2020 and the roadmap to develop a new Five-Year Plan by 2021 was agreed at full Council in July 2020.

The authority's **Strategic Delivery Plan (SDP)** is a single business plan for KCC and sets out the wide ranging and significant activities we deliver. A monitoring process is in place and this information is considered by Cabinet Committees on a six-monthly basis. The Strategic Delivery Board, as part of the new informal governance arrangements, considers activities of importance and concern identified through the quarterly monitoring alongside activities where engagement is required pre-decision, for example on developing business cases or commissioning plans.

The Corporate Management Team (CMT) are collectively responsible for identifying management actions that should be taken to address any issues arising from the Strategic Delivery Plan monitoring process. CMT provide assurance to Cabinet Members through the Corporate Board forum. The Covid-19 crisis has seen the CMT work together even more closely than before using regular virtual meetings to deal with urgent and pressing issues and to jointly agree operational responses.

Cabinet Members and CMT have agreed that directorate business plans will no longer be produced as the Strategic Delivery Plan is in place. **Annual Operating Plans** are available for each of KCC's divisions and these are published on KCC's intranet site KNet.

In response to the recent impacts of Covid-19, a revised SDP for 2020/21 has been produced. Monitoring arrangements will continue on a proportionate basis which is reflective of the current situation and effectively tracks progress.

A new **Control Framework** for strategies and policies was launched this year. It sets out some simple principles for the management of our strategies and high-level policies. The Control Framework explains which types of document are in scope for inclusion on the **Strategy and Policy Register**. The framework has been agreed by the Corporate Management Team and is referenced within KCC's Constitution and Operating Standards. It is overseen by the Policy and Resources Cabinet Committee.

During 2019/20 a structural review of **KCC's Constitution** was undertaken, this was presented to and agreed by full Council on 17th October 2019. This review was initiated in response to the significantly changed operating environment and the strong view of Members that they would like a Constitution that is dynamic and capable of moving better with the organisation's changing needs. The Constitution is now more streamlined and accessible to the reader and user. Members have and will continue to be engaged in driving work forward to further evolve the Constitution.

In January 2020, members of the Governance & Audit Committee received a report from the General Counsel setting out work planned on a **review of corporate governance**. In addition to several planned activities, the report set out proposals to review the way in which information is gathered to build the Annual Governance Statement. This activity has been progressed and this year a systems-based process was used to collect key information from across directorates. This has proved to be a more streamlined and effective approach. Members of the Governance & Audit Committee have also received training on AGS considerations.

In January 2020, an Independent Member of the Governance & Audit Committee was appointed to support the objectives of the Committee. The Committee continues to ensure that the Council's financial affairs are properly and efficiently conducted and review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

A **Corporate Risk Register** is in place and the Governance & Audit Committee receive this on a six-monthly basis for assurance purposes, Cabinet also receive this information. In January 2020, the Governance & Audit Committee undertook the annual review of **KCC's Risk Management and Policy Statement** and agreed this for the coming year. This has been followed up by a Risk workshop for Committee members in October 2020.

From a financial governance perspective, **Financial Regulations** are in place which set out the control framework for the five following key areas of activity:

- Financial Planning
- Financial Management
- Risk Management and Control of Resources
- Systems and Procedures
- External Arrangements

A **Financial Delegation Matrix** explains the finance approval process and associated approval limits. On 17th October 2019, full Council approved an updated matrix of approval limits as an amendment to the Constitution. Changes were made to align with new staffing structures and the responsibilities of Strategic Procurement and Commissioning.

The deliverability of the revenue budget, revenue savings and the Capital Programme is monitored closely. The resistance of pressures, management action taken, and the identification of new efficiency options continue to progress and be monitored as the financial climate and demand for services is still increasingly challenging. Regular revenue and capital financial monitoring reports are provided to Cabinet Committees and Cabinet; the outturn position is also provided. The annual budget is presented to County Council for approval, this is supported by an assurance statement from the statutory Section 151 Officer. The deferral by Government of the 2019 Spending Review and consequential lack of multi-year funding settlement led to the decision not to publish a detailed Medium-Term Financial plan for 2020/23 as part of the approval of the 2020/21 revenue budget.

For the 20th consecutive year the Council can demonstrate sound financial management, by containing revenue expenditure within the budgeted level (excluding schools). Learning will continue to be taken and an organisation-wide review of the Council's financial management using the CIPFA FM Model will be progressed in 2020/21. This review will help to ensure that the authority continues to maintain and improve its financial management practice and financial resilience and is equipped to respond to the financial pressures local authorities will be facing for the foreseeable future.

Kent County Council's **Scrutiny Committee** continues to investigate issues affecting the authority and Kent residents and makes recommendations to support the improvement of council services. New **Select Committees** were established in 2019/20, and topics included Knife Crime and Affordable Housing. Select Committees present progress updates, findings and recommendations to full Council. The Knife Crime Select Committee report was endorsed on 17th October 2019.

Full Council considered KCC's emerging relationship with the NHS **Integrated Care System (ICS)** this year given the potential proposals put forward to fundamentally change existing KCC social care budgets, policies and decision-making arrangements. The County Council agreed that KCC describes its relationship with the emerging Integrated Care System as being partners to the ICS supporting the vision and direction of travel and not partners in the ICS. It was also resolved that KCC is not bound to any system wide decisions made through STP/ICS Governance but continues to influence, support and align to the vision for the ICS where it makes sense for the County Council to do so. The signing of the ICS Memorandum of Understanding was delegated to the Leader in his role as Cabinet Member for Health Reform.

The **Kent Local Area SEND Written Statement of Action** was issued in 2019 in response to the joint Ofsted and Care Quality Commission inspection that took place between 28 January 2019 and 1 February 2019. The local area inspection focussed on the implementation of disability and special educational needs reforms as set out in the Children and Families Act 2014. The findings of the inspection were detailed in a letter which is available on the Ofsted website.

The Kent Local Area SEND Written Statement of Action explains the steps that are being taken to improve parental engagement and co-production, inclusive practice and outcomes, progress and attainment, the quality of EHCPs, joint commissioning, governance and service provision. Ofsted and the CQC confirmed in writing on 3rd September 2019 that the statement was fit for purpose in setting out how the local area will tackle the significant areas of weakness identified in the published report letter. It was noted by the inspection bodies that several improvements had been made to the statement including more direct links between the planned actions and outcomes for children and young people.

Many positive steps are being taken to address the areas of improvements identified by the inspection including the establishment of the Kent Parents and Carers Together group (PACT) for parents of children and young people with disabilities and additional needs to share their views and to have a voice.

New **Safeguarding Children's Multi-agency partnership arrangements** were established in 2019/20. The KSCMP is a new statutory body which replaces the former local Safeguarding Children Board which has ceased to exist. An agreed governance structure is in place and partner agencies are Kent County Council, the NHS and Kent Police. The partnership was put into effect on 17th September 2019 and County Council were provided with an update on the new arrangements at their meeting on 17th October 2019.

KCC's **EU to UK transition preparedness** was considered by full Council during 2019/20 and this remains a subject of high priority and focus for the authority. It is recognised that there will be significant resource implications associated with the management of the transitional activity at a local level and the Covid-19 response and recovery which will be operating in parallel. The Corporate Director of Growth, Environment and Transport is leading the operational preparations for the transition.

Alongside Kent County Council's formal governance arrangements, **informal governance arrangements** are also in place and established. The purpose of these is to bring Officers and elected Members together to consider the right activity at the right time, providing advice in advance of formal governance and decision making and assurance of delivery. The Strategic Delivery Board was established this year.

The Council has continued throughout the year to **engage and consult** with residents, listening to and drawing upon feedback to inform strategies and service developments. Consultation topics this year have included, but have not been exclusive to, proposed changes to our charging policy for Adult Social Care Services provided in a person's own home or in the community, the Domestic Abuse Strategy, the Kent and Medway Energy & Low Emissions Strategy and the Civil Society Strategy.

KCC has an established **complaints and compliments procedure** which helps to improve the services we provide to all customers. The County Council's public facing website provides the detail of how feedback can be provided to each service. There is a commitment to operating an effective customer feedback system, that demonstrates to the public that the authority:

- Puts customers at the heart of everything we do
- Listens to what residents have to say
- Is open, honest and transparent
- Is responsive and fair.

Customer feedback processes were reviewed by internal audit this year. The audit found that *'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. And that there were 'very good' prospects for improvement'*.

At the time of writing this statement, the Annual Complaints, Comments and Compliments Report for 2019/20 has been produced and will be presented to the October Governance & Audit Committee for consideration. The report includes

statistics relating to customer feedback received by the Council and a sample of complaints considered by the Local Government and Social Care Ombudsman.

In response to the Covid-19 emergency, the members of the Corporate Management Team agreed a temporary Complaints Policy which was published on the County Council's website.

Kent County Council continues to place a significant emphasis on **cyber security**. In May 2019, the Strategic and Corporate Services Directorate Management Team received a report setting out the detail of a maturity assessment. Whilst there are no mitigations that are completely effective against cyber-attack, KCC has developed a cyber security framework for the organisation. Multiple controls are in place as part of the network security regime. These controls are audited by a combination of Public Service Network Code of Connection certification (PSN CoCo), internal audit assessments and external auditing assessment.

To provide an independent assessment of the Council's position, a review of KCC's cyber resilience was commissioned from the National Computing Centre Group (NCCG). The NCCG review concluded that whilst KCC has an overall good level of maturity, there are several areas where the authority's approach could be further strengthened. An internal action plan has been developed to address issues raised, this is owned by the Director of Infrastructure.

Unfortunately, criminals appear to be targeting the systems of organisations during the pandemic and one of KCC's wholly owned companies has already fallen victim to a cyber attack, learning is being taken and reported to the Shareholder Board. Measures will continue to be adopted to ensure that systems are secure and resilient. The risk level attributed to cyber security has also been raised in KCC's Corporate Risk Register in recognition of the significant reliance on IT in the current climate, the increasing prevalence of cyber-attacks on organisations and increased remote working.

The Council manages investments in the wholly owned trading companies through a Shareholder Board with a range of governance documents managing the controls including reserved matters. In addition, the shareholder receives relevant audits from the companies with the ability to further review as necessary. As part of actions from the 2019 AGS, this year the Holding Company has carried out an AGS process of their own which will be assured by the Head of Internal Audit.

Whilst many positive steps were taken in 2019/20 to improve and streamline the authority's governance processes, it is important not to lose sight of the requirement to evolve and adapt further to respond to the numerous challenges that Covid-19 has and will continue to present. Decision processes and the ways in which KCC's Committee meetings are conducted have already been adapted to reflect the

impracticalities of holding physical meetings at the current time. Members and Officers have responded exceptionally well to the new approach and opportunities to harness new technologies and continue to innovate in this unexpectedly changed operating environment will be sought.

Members and Officers will work together to ensure that KCC's governance arrangements continue to be fit for purpose and support the effective provision of services to Kent's residents. Evolving Government policies, guidance and the central response to the national funding situation will continue to impact the way KCC operates and governs its services moving forward.

The financial implications of Covid-19 are extremely significant and in the 2018/19 AGS specific reflections were made about the existing local government financing position and the requirement to find significant savings in future years. Pressures associated with areas such as asylum remain and continue to increase. The asylum situation in Kent and KCC's position has been widely publicised recently.

The Secretary of State approved Kent County Council's request to transfer 1% from the Schools block of funding to the High Needs block of funding. This transfer of funding has meant that Kent County Council can support greater inclusion of children and young people with Education Health and Care Plans (EHCPs) into mainstream schools.

In the 2018/19 Annual Governance Statement, specific regard was given to capital constraints associated with the delivery of new school placements. Because of Covid-19 it has been necessary to quickly undertake an assessment of the impact on the capital programme with schools, stakeholders and contractors. The review identified over 30 capital projects, which are at risk due to contractors having stopped work or reported delays due reduced labour and material supply issues. To ensure that KCC can continue to support the supply chain and meet the authority's statutory obligation to deliver school places for September 2020 a key decision was taken to approve additional contractor funding for projects that already have a key decision or delegated authority in place.

The financial challenge is being worked through using several high-level scenarios so the implications on the budgets for 2020/21 and 2021/22 can be understood and actions subsequently taken. The size of the challenge the authority faces will be dependent on the level of further Government funding that comes forward and may need to include the use of reserves.

Kent County Council will continue to deliver better outcomes for Kent's residents, communities and businesses in these very difficult circumstances whilst reviewing

and revisiting some of the underpinning strategy direction that has been impacted by Covid-19.

Audit Review of AGS Process

The Head of Internal Audit has reviewed the amended AGS process and audited the responses, determining that the process is adequate.

Review of effectiveness

Kent County Council has a responsibility to review the effectiveness of its governance. This review has been co-ordinated by the General Counsel and the Governance, Democracy and Law division and has involved Directors collating, reviewing and evidencing compliance. There has also been a requirement for directorates to identify any new governance improvements required within their services and to provide updates on matters highlighted in 2018/19. Issues identified by Audit were also considered for inclusion in this statement.

Learning has been taken about the requirement to refine AGS information collation processes and this year technology has been used to support the gathering of data.

Set out below are a range of key findings and identified actions to manage the issues identified. Signature of the statement below is predicated on the basis that the identified actions are discharged within the coming year.

Key Findings

- All directorates have confirmed that their services and staff are compliant with the KCC Operating Standards.
- The new approach to gathering information has provided an opportunity for Officers to comment on the maturity of the governance within their services. Accountable Officers have been able to set out their improvement plans which means that the assessment of governance can be taken cognisant of planned activity and improvements.
- Services have self-assessed with scores ranging between 7/10 and 9/10. These assessments will be reviewed by Internal Audit against known governance issues, risk registers and audit activity to support improvement plans.
- The implementation of the new approach to data capture means that governance issues can now be tracked in real time and reported to the Governance and Audit Committee. This means that the process of reviewing

governance can continue throughout the year rather than waiting for the annual review – thereby improving accountability for improvements.

- Officers have confirmed that they have the necessary resources and delegations in place to meet their constitutional, governance and legal obligations. Internal Audit will test the efficacy of these through the audit process.
- Further improvements and training are required around decision-making (particularly relating to two-stage decisions) to ensure that key and significant decisions are taken and published in accordance with the Constitution.
- Members are concerned about the number of decisions taken under delegation by Officers and the lack of recording and reporting of these.
- There have been occasions where the roles of Officers and Members have not remained clearly defined or as set out in the constitution.
- There are increasing levels of additional governance that have been put in place within individual directorates for operational reasons and in some circumstances, this can risk undermining statutory and constitutional controls.
- There has been a significant increase in the number of urgent decisions and decisions where the time on the FED was reduced. Whilst many of these have been as a result of Covid-19, this has not always been the case.
- Significant assurance has been provided in relation to the importance placed on governance controls by individual directorates and their accountable senior Officers.
- At the time of this document being prepared in draft, there was an even greater need to listen and understand issues of equality, prejudice and discrimination. It is rightly important that the organisation pauses, listens and reflects on these issues. In relation to this statement, the appendix that will be added on final signature will specifically consider these issues from a governance perspective when a more careful and considered view is possible having listened to staff groups and others.

Identified Actions

- **Liaison with Internal Audit on review of self-assessment and improvement plans.**
- **Refreshed programme of training for Officers and Members on decision-making.**
- **Review of formal governance to increase controls at FED and Decision stages to ensure mandatory compliance with governance.**
- **Creation of mechanism for recording Officer decisions taken under delegation for scrutiny by Members.**
- **Review of Directorate delegations reporting to Governance and Audit Committee.**

- **Further revisions to the constitution and operating standards.**
- **Review of Company Governance and Audit Arrangements**
- **Introduction of dynamic review of outstanding governance issues to report quarterly to Governance and Audit Committee.**

Principle A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Kent County Council is a Member led authority and the roles and responsibilities of elected Members and Officers and the processes that govern the conduct of the Council's business are defined in the Constitution, Contract and Tenders Standing Orders, and Financial Regulations. The Monitoring Officer and Section 151 Officer respectively are responsible for reviewing and updating these as required.

A structural revision was made to the Constitution this year. Whilst it was noted by Members that the Constitution was legally sound, it was recommended that it would be beneficial to have a document that is dynamic and capable of moving better with the organisation's changing needs. It was also necessary to accurately reflect the Council's operating model. For these reasons, a revised version of the Constitution was presented to and endorsed by full Council in October 2019. Work with Members continues to further evolve the Constitution.

There is a clear expectation that all Members and Officers apply high ethical values and standards of behaviour. Codes of Conduct are in place to ensure that public duties are undertaken fairly and in line with the authority's statutory obligations. Members and Officers are required to declare any potential conflicts of interests and the information for County Councillors and Senior Officers is published on Kent.gov.

KCC's Standards Committee has several responsibilities as set out in the Localism Act 2011 including the promotion and maintenance of high standards of conduct by Members and Co-opted Members of the County Council. The Monitoring Officer delivers a summary of Member complaints received, the advice of the Independent Person engaged and the complaint outcome to the Committee. A Standards Committee Hearing Panel is in place.

The Kent Code sets out the expectations for the conduct of all employees. A staff disciplinary procedure is in place with the primary purpose of improving and maintaining acceptable standards of conduct and behaviour. Serious disciplinary issues associated with staff conduct generate formal investigations and hearings to consider the facts around an allegation.

Kent County Council has an identified set of core values and these are incorporated in staff recruitment and performance management activities.

KCC has an Anti-Fraud and Corruption Strategy and the authority openly welcomes reports from the public, staff and Members of instances of actual, attempted and suspected fraud that pose a threat to resources. Reports made are investigated and fraud prevention data is publicly available on the County Council's website.

The County Council has a Whistleblowing Policy in place and named contacts in directorates are identified.

KCC's Monitoring Officer is responsible for ensuring that all relevant statutes and regulations are complied with and agreed procedures followed. Advice continues to be provided to both Members and Officers and channels to raise any concerns about integrity or governance remain open.

The Governance & Audit Committee considers both internal and external audit activity as well as updates, reports, and advice from the Section 151 Officer, the Monitoring Officer and the Head of Internal Audit.

Principle B - Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public and webcast unless there are reasons for not doing so in line with the relevant statutory provisions. Frequently representatives from the media attend KCC's public meetings.

A back catalogue of Committee meeting webcasts is held on Kent.gov and all papers, except for exempt items, are also publicly available alongside the minutes from each meeting. This system enables the public to watch live coverage of meetings and review the detail of forthcoming items or items previously considered. Forward programmes of work are also made available for each Cabinet Committee.

It is a requirement that Pre Records of Decisions are published before key decisions are considered by Cabinet Committees then subsequently taken by the Executive. This provides transparency of the planned decision so Members can comment on recommendations made.

KCC has paper petition and e-petition systems in place. Anyone who lives, works or studies in Kent County Council's area can submit or sign a petition. Thresholds are in place and if a petition has at least 1,000 signatures it will be debated at the most appropriate local meeting. Petitions receiving 2,500 and 9,999 signatures are

considered by the relevant Cabinet Committees. Those receiving 10,000 signatures or more are considered by the County Council. The detail of petitions received are available on Kent.gov.

Kent County Council is increasingly using a variety of social media channels to engage with the county's residents. As an example, the authority has its own Twitter page on which the latest campaigns, news and engagement opportunities are promoted.

An easily accessible consultation portal is in place and members of the public and other stakeholders are invited to provide feedback on consultations relating to a wide range of service and strategy proposals. Opportunities to hold resident engagement events are frequently sought and this forum was used to inform the 2020/21 budget setting process.

Easy read documents are available to ensure that key information is accessible. Alternative formats of information can also be supplied.

Principle C - Defining outcomes in terms of sustainable economic, social and environmental benefits

Outcome 2 of Kent County Council's current Strategic Statement 'Increasing Opportunities, Improving Outcomes' is 'we want Kent communities to benefit from economic growth by being in-work, healthy and enjoying a good quality of life'. The Strategic Statement Annual Report for 2019 sets out achievements against this outcome and the performance direction of travel. The report highlights many activities undertaken including vital infrastructure improvements, the facilitation of commercial development, broadband delivery progress and the promotion of adult learning.

The Kent and Medway Growth and Infrastructure Framework (GIF) provides a county-wide picture of growth and infrastructure and indicates the extent of the infrastructure challenge. It continues to be used to provide a robust evidence base as part of the "infrastructure first proposition" - to attract investment, engage partners and inform solutions to unlock housing growth. The framework gives specific regard to transport, education, health and social care, community and culture, utilities and the natural environment.

The Kent and Medway Energy and Low Emissions Strategy (ELES) has been developed as a sub strategy of the Kent Environment Strategy. The purpose of the ELES is to identify an evidence-based approach to deliver clean growth. This includes strategies and actions to reduce carbon emissions, eliminate poor air quality, reduce fuel poverty and deliver an affordable, clean and secure energy

supply. A public consultation exercise was undertaken in 2019 to inform the ELES. The strategy sets out the vision that by 2050 the county of Kent has reduced emissions to Net-Zero and is benefiting from a competitive, innovative and resilient low carbon economy, where no deaths are associated with poor air quality. The four key strategy aims are evidence, policy and strategy, leadership and action.

The Social Isolation and Loneliness Select Committee developed an Action Plan with the purpose of ensuring that services and support are in place for residents of all ages who may be isolated. The Loneliness and Social Isolation Action Plan supports the Government Strategy 'A connected society: a strategy for tackling loneliness – laying the foundations for change'. Kent County Council also progressed its plans to refresh the VCS policy and consult on a new Civil Society strategy for Kent in 2019/20.

A clear process is in place to monitor performance across Kent County Council. Performance monitoring reports are considered within directorates, by the Corporate Management Team, Cabinet Committees, Cabinet and subsequently at meetings of relevance.

Principle D - Determining the interventions necessary to optimise the achievement of the intended outcomes

All decision makers are presented with an objective analysis of a variety of options indicating how intended outcomes could be achieved together alongside the detail of any associated risks.

The Council has created a range of informal governance mechanisms, this is an important part of the effective management of the council and supports Officers and Elected Members in decision making, policy and budget development. The new Strategic Delivery Board provides advice to ensure the development of high-quality proposals, effective strategic alignment and financial management, and provides assurance on the delivery of Strategic Delivery Plan activities.

Clear guidance and protocols for decision making and the involvement of legal and financial Officers in significant decisions ensures that they are only made after the relevant options and associated risks have been assessed. Rules are also in place and monitored in relation to the signing and sealing of contracts and agreements.

Principle E - Developing the entity's capacity, including the capability of its leadership and the individuals within it

The development of the organisation's capacity and capability continues to be a significant and important area of focus. Covid-19 has presented many new and complex challenges associated with the organisation's capacity to manage demand and deliver services in a different way. Programmes of support and development continue to be extended to both Members and Officers and bespoke offers have been put in place in recognition of the implications of Covid-19. Up to date Business Continuity Plans have also been essential in sustaining service provision and the deployment of staff during the emergency period to ensure there is the right resource capacity in the right places.

The Corporate Management Team consists of the Corporate Directors who represent KCC's directorates and is led by the Head of Paid Service. The team are collectively responsible for:

- the managerial leadership and direction of the council
- the formal response to Cabinet policy direction
- council-wide policy and initiatives for Cabinet consideration
- co-ordination and commissioning of council-wide activity, planning, programme management.

Kent County Council has a People Strategy in place for the period 2017-2022 which sets out the intention to make the most of our staff and their talents. The strategy is built on the six key principles of business and outcomes focus, flexibility, building capacity, leadership, innovation and collaboration. It is important that the strategy continues to evolve in response to the impact of Covid-19 on the operational environment. A Corporate Management Team led review of KCC's Organisation Design Principles is currently underway.

KCC has an established Organisation Development Plan which explains how workforce capacity and capability will be improved to deliver transformation and service change. Organisation development is led by the Organisation Development function in partnership with directorate OD Groups and line managers. OD Groups and managers are responsible for implementing interventions which sustain change and improve organisation performance.

A Total Contribution Performance Assessment process is in place for staff. Managers are required to discuss expectations, objectives, performance and development with staff members as part of the regular conversations that take place throughout the year to inform the annual assessment. Toolkits are in place to support both managers and employees to manage conversations well.

Principle F - Managing risks and performance through robust internal control and strong public financial management

The authority has a Risk Management Policy and Strategy which sets out the detail of how risks are managed when they occur. Risks are managed throughout all levels of the organisation and a risk register hierarchy is in place to enable effective escalation. Guidance and toolkits are available to support the identification and management of risks, while accountable risk owners are also allocated. Risk management is embedded into the Council's activities and decision-making and regular reports are provided to Committees, Cabinet, the Corporate Management Team and directorates. The Corporate Risk Register is published on KCC's website and is regularly reviewed.

Because of Covid-19 a review has been undertaken to identify the impact on the authority's risk profile; the Corporate Risk Register has been revised accordingly. It is important to note that the level of risk exposure for KCC has increased due to Covid-19 and acceptable target risk levels for each risk have been put in place and will be monitored. The impacts of Covid-19 on the Corporate Risk Register were presented to the Governance & Audit Committee on 21st July 2020.

This year the County Council's Risk Management arrangements received a 'Substantial' Internal Audit assurance opinion, positively demonstrating the robust nature, organisational awareness and application of processes in place.

KCC's Corporate Director of Finance is the statutory Section 151 Officer and has responsibility for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

Financial Regulations set out the Council's financial governance and virement procedures.

The current Budget Book which was presented to County Council in February 2020, concluded that *'the Council has an increased risk profile since the 2019-20 budget was approved, and on a like-for-like basis the Council will have a similar level of earmarked reserves available during the year. This means the Council is marginally less resilient than before, but this is not a cause for concern at this stage. Whilst no immediate action is required, the Council's resilience will continue to be monitored and the trend will need to be reversed as much as possible in the medium term'*. However, the unexpected impact of Covid-19 has significantly impacted the current budgetary position and an overview of these impacts was presented to the Scrutiny Committee.

Whilst the authority has responded well, current uncertainties have presented new challenges in respect of financial planning. Government grant monies have been received but it is recognised that the financial situation for the Council is

unprecedented and challenging. Concerns have been articulated to MHCLG directly by the Council and through Kent Leaders, the Kent Finance Officers' Group, the County Council's Network and the Society of County Treasurers. Cabinet received a report on 22nd June 2020 setting out high level financial planning scenarios alongside the associated budgetary impacts. In September 2020 County Council have also considered the actions that were required to recast the 2020/21 revenue budget in response to the significant financial impact of Covid-19. The Corporate Risk Register will be revised to reflect the increased risk level attributed to the Medium Term Financial and Operating environment and key mitigations will be identified.

Across the organisation, the costs associated with the Covid-19 response are captured by budget managers in the Council's financial forecasting tool Collaborative Planning and cost estimates have been supplied to MHCLG. Kent County Council will continue to plan for multiple scenarios.

Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a regular basis for control purposes, this includes the annual outturn and the detail of any proposed roll forwards. Members can consider any element of budget monitoring through the relevant Cabinet Committee to ensure performance and risks are managed effectively.

Principle G - Implementing good practices in transparency reporting, and audit to deliver effective accountability

The Head of Internal Audit has undertaken a programme of reviews around governance arrangements, internal control and risk management arrangements at the Council. Overall, an opinion was provided that **adequate** assurance could be provided in respect of 2019-20 as detailed in the Annual Internal Audit Report which readers are also referred to. Whilst this report details the outcomes, actions and issues from audits insofar as they affect governance the Annual Internal Audit Report provides detail on the full range of audit activity including the limited assurance and no assurance findings.

The Head of Internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management, and governance. Quarterly reports on Internal Audit and Counter Fraud activity are presented to the Governance & Audit Committee on a quarterly basis for consideration. The Committee also approves the annual programme of work. External Audit updates and Audit Plans are also received from the authority's external auditor, Grant Thornton.

As mentioned earlier in this statement, an Independent Member was appointed to the Governance and Audit Committee this year. This appointment responded to CIPFA's Position Statement on Audit Committees which recommended as a matter of good practice that authorities consider the appointment of an Independent Member. In a report to the Governance and Audit Committee on 24th April 2019 it was noted that the advantages of having an Independent Member on the Committee are greater levels of apolitical independence and the bridging of certain skills gaps and expertise.

The services provided by the Internal Audit and Counter Fraud Team conform to the Public Sector Internal Audit Standards (PSIAS) 2017.

Kent County Council has established a holding company (Kent Holdco Ltd) to control and manage investments on a commercial basis. The Council exercises its interest in Kent Holdco Ltd through reserved matters and the activities of the Shareholder Board. KCC Non-Executive Directors and Independent Non-Executive Directors are appointed to the Kent HoldCo Ltd Company Board.

The Governance and Audit Committee receive and review the annual statutory financial accounts of the KCC limited companies and financial statements for other trading vehicles; corrective action is considered where appropriate. Kent County Council's wholly owned companies are required to produce an Annual Governance Statement which is reported on a consolidated basis by Kent HoldCo to the Shareholder Board.

Annual Governance Statement 2019/20 Conclusion

It is recognised that the authority must continue to adapt and refine its governance processes to respond to the new and significant challenges posed by Covid-19. The reality is that these challenges will be current for some time and whilst much rapid work has already been undertaken to develop solutions and innovate, the authority must further evolve so quality and fit for purpose services that offer value for money can continue to be delivered to the people of Kent. It is also essential that statutory obligations continue to be maintained.

The financial challenge presented to the authority is notable, and whilst planning will take place there are currently several uncertainties about the quantum of any additional central funding that may come forward as well as the long-term funding arrangements for local authorities.

We will continue to take learning from areas where performance can be improved and will regularly review the authority's risk profile to ensure that it is reflective of current circumstances. Robust controls will remain in place and Internal Audit activity

will be particularly important in identifying areas of both strength and improvement. The oversight of the Governance and Audit Committee will continue to be key in terms of ensuring that the financial affairs of the authority are properly and efficiently conducted and that assurances can be given about the adequacy of the risk management and governance framework during this difficult time.

The collective effort of Members and Officers is valued in terms of adapting our governance and decision-making processes to reflect the challenges presented by Covid-19. The authority has embraced new technologies and ways of doing things and it is hoped that this positive momentum of innovation can continue.

We will, over the coming year, take appropriate action to address all matters raised in this Annual Governance Statement. We are satisfied that these steps will address the need for improvements that were identified in the effectiveness review and will monitor their implementation and operation as part of our next annual review.

The Corporate Director for People and Communications has confirmed to the Head of Paid Service that there were sufficient staffing resources available in 2019/20 for the Authority to discharge its responsibilities. Confirmation has also been received that during 2019/20 none of the Statutory Officers reported any issues to the Corporate Director for People and Communications which prevented them fulfilling their statutory roles and responsibilities. At the time of finalising this statement it is though important to note that the Director of Children's Services reported to the General Counsel on 17th August 2020 that he no longer felt able to safely discharge the Section 20 Duty to receive children into KCC's care at the port of Dover. This significant step was taken in response to the overwhelming demand caused by the high number of Unaccompanied Asylum Seeking Children arriving in Kent. It was not as a result of a lack of staff resources or workforce planning which were both entirely suitable for the normal and expected level of demand in Children's Services. The report required under Section 5 of the Local Government and Housing Act 1989 was provided to full Council on 10th September 2020.

The Monitoring Officer can confirm for the financial year ending March 2020 that save for the issues previously reported to Members of the Governance and Audit Committee, the County Council and through the annual complaints report, there is no known unlawfulness or maladministration. At the time of signing, it is further confirmed that all executive decisions have been taken as required by the Council's Constitution to the best of the Monitoring Officer's knowledge. However, during the period 1 April 2019 to 31 March 2020, he was required to intervene and seek remedial actions from Officers where decisions were at risk of not being taken lawfully, reasonably and proportionately. These were procedural failures which have now been remedied.

Through his signature, he also agrees to take forward the identified actions as set out on pages 13 and 14 of this statement and the identified actions that are set out at Appendix 1 to the Annual Governance Statement which details the activity since the draft Annual Governance Statement was published.

The Section 151 Officer provided assurance to the County Council that the budget proposed and approved for 2020-21 by the County Council on 20th February 2020 was based on robust estimates and allowed for an adequate level of reserves to cover foreseeable eventualities and general reserve for the unforeseeable risks. It is important to note that the Council's budget was agreed before the Covid-19 crisis and work has therefore been undertaken to recast the budget in line with the new unanticipated funding challenges that have been presented.

The Section 151 Officer can further assure the Council that she is satisfied that financial transactions and financial activity on behalf of the Council or where the Council manages activity on behalf of others were handled, processed and recorded in the correct manner during the period 1 April 2019 to 31 March 2020. The Section 151 Officer is content that she has the necessary structures and staffing in place to provide this assurance with confidence.

The Head of Paid Service signs this statement having received the assurances of all the accountable Corporate Directors and Directors for Strategic and Corporate Services through this AGS process and on the basis that the identified actions contained within this document and the appendix will be taken forward and completed by the Monitoring Officer.

The Head of Paid Service can confirm that he has complied with his constitutional duties in relation to the Operating Standards and that he has received assurance from all relevant Corporate Directors and Directors that they and their services are compliant.

Signatories

Ben Watts
Monitoring Officer

Zena Cooke
Section 151 Officer

Roger Gough
Leader

David Cockburn
Head of Paid Service

On behalf of Kent County Council – signed on (date to be inserted after
consideration by the Governance and Audit Committee)

DRAFT

Appendix 1

Since the time of writing the draft Annual Governance Statement, the Council has continued to deal with unprecedented operational pressures, in part caused by the COVID19 pandemic. As such, amendments to the Annual Governance Statement, published in draft earlier this year have been necessary.

Because of the nature and implications of the Covid-19 pandemic it is important that there is a continued emphasis on staff wellbeing, health and workforce planning. Whilst the organisation has faced unprecedented challenges teams have continued to demonstrate resiliency, agility and significant commitment to those who use KCC's services. Staff views will continue to be listened to, to understand how individuals are feeling and to inform future ways of working and change. There is also an accelerated programme of skills development for staff and managers as a result of the different way of working and managing necessitated by the pandemic.

The Corporate Management Team have been reviewing KCC's Organisation Design Principles to respond to the authority's strategic aims for recovery, strategic aims for the medium term and the service ambitions of directorates. KCC's People Strategy is also being reviewed and accelerated to reflect the new challenges and opportunities presented to the organisation and the new strategic reset context.

Work continues in addressing the issues raised by Internal Audit in their audit of the way in which the Superannuation Committee and associated decision making operates in light of investment decisions during 2019/20. Some initial changes have been made to bring the Committee in line with the administration of other Committees but further work is being done to implement the learning from the audit and the agreed actions with external advice underpinning the changes that will be concluded in the coming months.

From a governance perspective, this is particularly important and will be used alongside the identified actions in this AGS to address areas of change that are required and to identify the necessary skills, development and behaviours.

Key Findings

Since the draft statement was published, the following additional key findings are made:

- The Director of Children's Services reported to the General Counsel on 17th August 2020 that he no longer felt able to safely discharge the Section 20 Duty to receive children into KCC's care at the port of Dover. This has been subject to a section 5 report by the Monitoring Officer regarding unlawfulness which is attached at Appendix 2.
- Members and Officers have responded strongly and the Council's systems and business continuity plans have stood up well. That said, the new working arrangements and operating environment have placed pressure on the

existing governance framework through the overnight delivery of transformational change to the Council's operating model. Whilst appreciating the unique and unprecedented challenges, this pressure is demonstrated in the number of urgent decisions and increased activity for officers in Governance, Law and Democracy.

- The overnight change in working patterns and methods caused by the pandemic means that the Council now needs to implement discrete digital governance arrangements.
- The Government announced that they will publish a White Paper on devolution and recovery albeit this was delayed shortly before publication of this statement. At the time of writing the Annual Government Statement, the direction of travel which Government may recommend is unclear, but Kent County Council must be prepared to respond. The Secretary of State for Housing, Communities and Local Government has stated that he wants the view of local authorities to be at the heart of Government's ideas.
- Information Governance issues and data breaches by external providers have increased during the pandemic in scale and quantity if not materiality.
- The Council now faces additional and significant financial pressures as a result of the pandemic and associated strain on income, council tax receipts and increased demand.

Identified Actions

In addition to the issues listed in the main statement, the following further actions have been identified

- Dependent on the outputs of the White Paper there may be some fundamental governance considerations for the authority to review. It will be essential that the right linkages are made between the national direction and Kent County Council's own Strategic Reset Programme.
- For the General Counsel and the SIRO to review the organisation's use of technology and develop detailed digital governance.
- Formal advice note from the General Counsel to Cabinet Members and Extended Corporate Management Team around executive decision-making.

By: Jonathan Idle – Head of Internal Audit
To: Governance and Audit Committee – 8th October 2020
Subject: **INTERNAL AUDIT PROGRESS REPORT**
Classification: Unrestricted

Summary:

This Progress Report details summaries of completed Audit reports between for the period July to September 2020.

Recommendation:

The Governance and Audit Committee note the Internal Audit Progress Report for the period July to September 2020.

FOR ASSURANCE

1. Introduction

- 1.1 Public Sector Internal Audit Standards (PSIAS) require that periodic reports on the work of Internal Audit should be prepared and submitted to those charged with governance.
- 1.2 This Progress Report provides the Governance and Audit Committee with an accumulative summary view of the work undertaken by Internal Audit in the period of July 2020 to 28th September 2020, together with the resulting conclusions, where appropriate.

2. Recommendation

- 2.1 Members are requested to note the Internal Audit Progress Report for the period July to September 2020.

3. Background Documents

Internal Audit Progress Report.

Jonathan Idle, Head of Internal Audit

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September 2020

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IACF

Improving Outcomes
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INTERNAL AUDIT PROGRESS REPORT
GOVERNANCE AND AUDIT COMMITTEE
8th October 2020

1. Introduction

- 1.1 The role of the Internal Audit function is to provide Members and Management with independent assurance that the control, risk and governance framework in place within the Council is effective and supports the Council in the achievement of its objectives. The work of the Internal Audit team should be targeted towards those areas within the Council that are most at risk of impacting on the Council's ability to achieve its objectives.
- 1.2 Upon completion of an audit, an assurance opinion is given on the soundness of the controls in place. The results of the entire programme of work are then summarised in an opinion in the Annual Internal Audit Report on the effectiveness of internal control within the organisation.
- 1.3 This activity report provides Members of the Governance and Audit Committee and Management with 5 summaries of completed work since the previous Committee in July 2020.
- 1.4 The following areas, usually covered within a Progress Report, are detailed within the Internal Audit Annual Report in a separate agenda item:
 - Analysis of Assurances issued;
 - Plan Status and Delivery;
 - Grant Certification; and
 - Internal Audit Resources, as required by the Public Sector Internal Audit Standards (PSIAS).

2. Key Messages

- Planned work is currently below target (although this is not uncommon at this stage of the financial year), however a substantial amount of work is planned and in progress;
- 17 grants/ certifications have been certified to date;
- A summary of matters arising for 5 of the completed audit assignments has been provided at Appendix B.

3. Updates

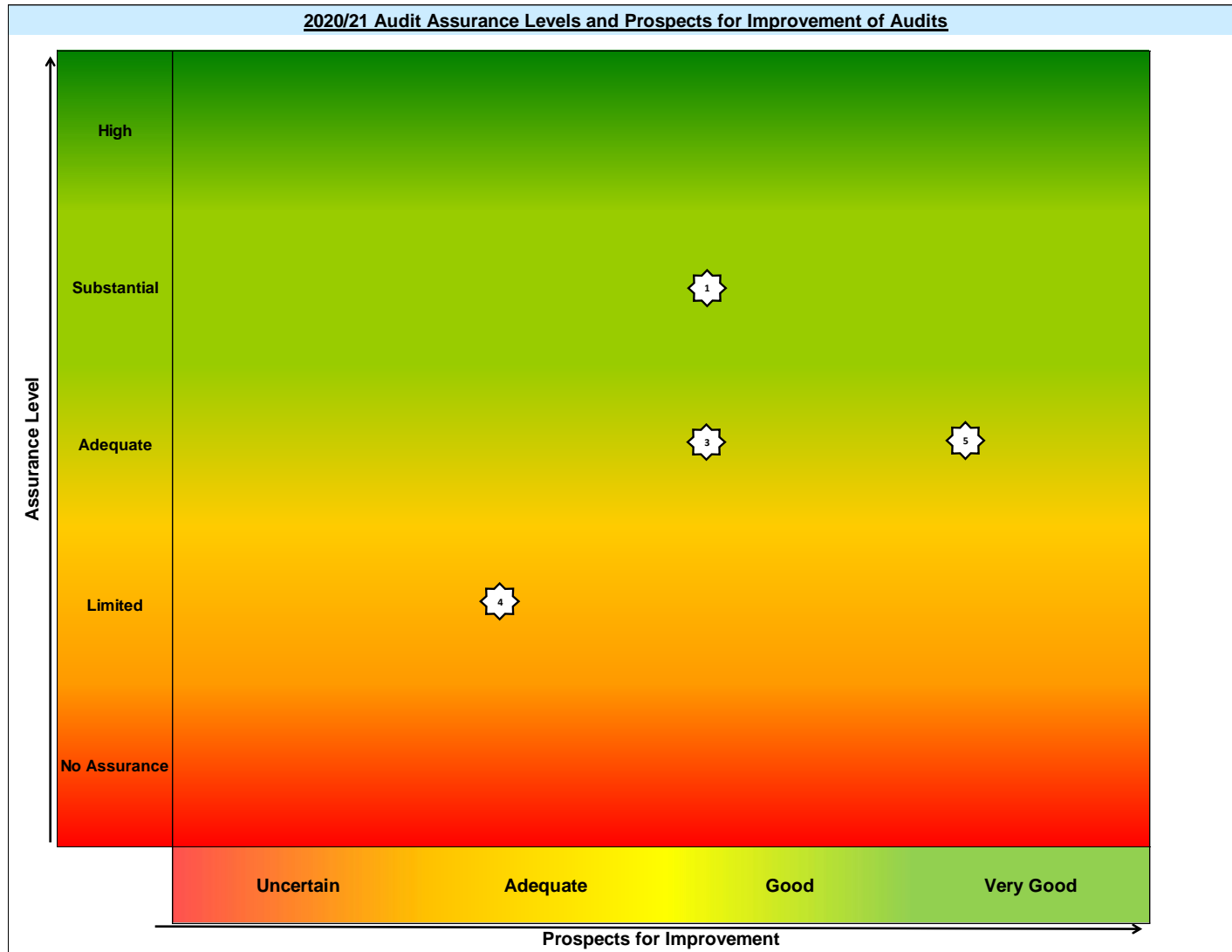
3.1 Internal Audit Plan Status:

Coverage to date has concentrated on completing planned reviews from the 2019-20 Audit Plan and commencing reviews from the 2020-21 Audit Plan agreed at the July Governance and Audit Committee. Although reports issued remains below target at this stage with 6 planned reviews at draft or final reporting stage, a further 32 reviews are either in progress or at planning stage. Such report completion levels at this stage of the year are not uncommon and it is anticipated that there will be a significant increase in the number of reviews at draft/ final stage at the end of the calendar year.

This period has required significant resources to be assigned to Grant Certification (see 3.2) and, additionally, resources are now being directed towards preparations for the external Quality Assessment of the service.

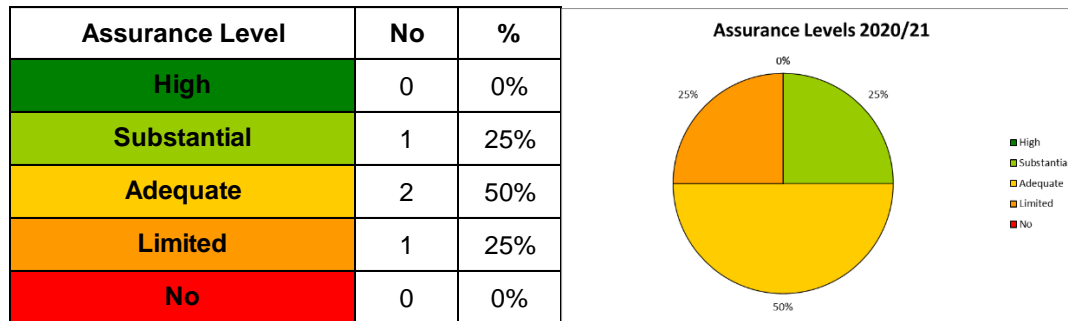
Full details of the status of planned work, for the period to 25th September 2020 are provided at Appendix A of this report. A summary of the completed reports is shown in Table 1 below:

Table 1: Summary of Assurance Levels to Date



Audit Opinion October G&A Committee

No	Audit	Assurance	Prospects for Improvement
1	PPE	Substantial	Good
2	SUPPLIER RELIEF PAYMENTS	N/A	N/A
3	CHANGE FOR KENT CHILDREN	Adequate	Good
4	ICT ASSET CONTROL (COVID-19 IMPACT) (DRAFT)	Limited	Adequate
5	AGS 2019/20	Adequate	Very Good



3.2 Grant Certification Work:

To date in 2020-21, the team has audited and certified 17 grant claims/ spot checks and work is currently in progress for several other certifications. Details of all certifications can be seen at Appendix A. Internal Audit work on grant certification provides an essential service for the Council and although not audit opinion work, it is highlighted that this reflects an increasing commitment of Internal Audit resources. It is also apparent that one aspect of changed working arrangements has been the impact upon increasing the challenges of completing such work. It is also highlighted that there will be further new complex and comparatively high-profile grant certifications that the service will be undertaking including the Test and Trace Support Grant, for which £6.3m has been allocated to the Council.

3.3 Internal Audit Resources:

In accordance with the Public Sector Internal Audit Standards, members of the Committee need to be appraised of relevant matters relating to the resourcing of the Internal Audit function.

As stated at previous Committees, the positive expansion in recent years of the provision of Internal Audit and Counter Fraud services to in excess of 20 external clients and bodies has not been accompanied by corresponding resources to deliver the very wide range of assurance and governance matters it engages in and to the expectations of its stakeholders and clients on a continual basis. Furthermore, the Internal Audit Plan for 2020-21, agreed at the July Governance and Audit Committee, noted a shortfall in resources.

With the appointment of the Head of Internal Audit in September 2020, the review of options to address the resource and skills requirements of the section has commenced albeit at very early stages. Consequently, short-term resource shortfalls will continue to be addressed by a combination of fixed-term and agency resource and other options are currently being considered. Any proposed changes to the resourcing of Internal Audit will initially be drawn to the attention of the Chair of the Committee and the s.151 Officer.

3.4 Revision of Audit Plan:

The Internal Audit Plan must be flexible to ensure that it remains relevant to risks facing the Council throughout the year. At this stage, there are no specific amendments to draw to the attention of the Committee, but it is very likely that coverage will, in part, be amended to reflect changing risk circumstances and requests from senior management in the following months. It is envisaged, therefore, that amendments, will be reported at the subsequent Committee in January and any significant changes will be discussed and notified to the Chair and s.151 Officer in the period up to the January Committee.

4. Under the Spotlight!



With each Progress report, Internal Audit turns the spotlight on the audit reviews, providing the Governance and Audit Committee with a summary of the objectives of the review, the key findings, conclusions and recommendations; thereby giving the Committee the opportunity to explore the areas further, should it wish to do so.

In this period, the following report summaries are provided at Appendix B, for the Committee's information and discussion.

A Cross Directorate

1. Annual Governance Statement Assurance Statement Process 2019-20
2. Covid-19 risk - PPE Distribution and Stock Control (Strategic and Corporate Services / Adult Social Care and Health)

B Strategic and Corporate Services:

1. Covid-19 risk - Supplier Distress Payments - Part 1
2. Covid-19 risk - Asset Control of Laptops and Other Equipment

C Children, Young People and Education:

1. Change for Kent Children

Appendix A – Internal Audit Plan 20120-21 – Status and Assurance Summary

Ref	Audit	Status as at 25.09.20	Assurance
CA01	Annual Governance Statement Assurance Statement Process 2019-20	Final report	Adequate – GAC Oct 20
CA02	Corporate Governance	To Commence – Q3	
CA03	Records Management	To Commence - Q4	
CA04	Risk Management	To Commence -Q4	
CA05	Information Governance - DSP Toolkit Annual Audit	To Commence – Q3	
CA06	Information Governance - Advisory/ Attendance at IG Steering Group.	Ongoing	
CA07	Information Governance – Remote working	Planning	
CA08	Strategic Delivery Plan	Planning	
CA09	Office Cleaning Arrangements	In Progress	
CS01	Imprest Accounts Follow-up	To Commence – Q4	
CS02	Social Care Client Billing	Planning	
CS03	Non-residential care payments through Finestra	To Commence – Q3	
CS04	Respite Overpayment - Follow up	Planning	
CS05	Schools Financial Services (TEP)	To Commence – 21/22	
CS06	Capital Planning and Prioritisation	To Commence - Q4	
CS07	Kent Pension Fund Investment Governance - Follow up audit	To Commence – Q3	
CS08	ACCESS Pool	Planning	
CS09	Payment Project	Ongoing	
CS10	Finance - Urgent Payments Process	Planning	
CS11	Covid-19 risk - Supplier Distress Payments - Part 1	Complete	N/A - Management Letter – GAC Oct 20
CS11(a)	Covid-19 risk - Supplier Distress Payments - Part 2	To Commence – Q3	
CS12	Covid-19 expenditure - Part 1	In Progress	
CS12	Covid-19 expenditure - Part 2	In Progress	
RB01	Revised Equality Impact Assessment (EQIA) process	To Commence – Q4	
RB02	Strategic Commissioning Follow-up	To Commence - Q4	
RB03	Replacement of Oracle (Project)	Ongoing	
RB04	Health and Wellbeing Strategy	To Commence - Q4	
RB05	Succession Planning	In Progress	
RB06	Data Analytics Development - Payroll	Planning	
RB07	Future of Sessions HQ (Project)	Ongoing	
RB08	Property Infrastructure - Functions and Processes Transferred to KCC from Gen2	To Commence	
RB09	Covid-19 risk - Asset Control of Laptops and Other Equipment	Final Report	Limited – GAC Oct 20
RB10	Covid-19 risk - Procurement and Contracts	To Commence - Q4	
RB11	Adults Safeguarding - Assurance Map	In Progress	
RB12	Shaping the Market	To Commence - Q4	

RB13	Quality Assurance Framework	To Commence - Q4	
RB14	Partnership Working – NHS	To Commence Q3	
RB15	Mosaic - Post Implementation	To Commence Q3	
RB16	Workforce – Recruitment & Retention of Staff	Planning	
RB17	Capital Investment in Good Day Program	To Commence – Q3	
RB18	ASCH Covid-19 Response Plan	In Progress	
RB19	Covid-19 risk - PPE Distribution and Stock Control	Final Report	Substantial - GAC Oct 20
RB20	Project KARA - ASCH Digital Assistive Technology Project Board	Ongoing	
RB21	Charging Arrangements	In Progress	
RB22	ASCH Contingency		
RB23	Accommodation for Young People/ Care Leavers	To Commence Q3	
RB24	Schools Themed Review (Cyber Security)	Planning	
RB25	Children Missing Education	Planning	
RB26	Delivery of Statutory Services – Contract Management - TEP	To Commence – Q3	
RB27	Adoption	To Commence - Q4	
RB28	Change for Kent Children	Ongoing	
RB29	CYPE Assurance Map - Safeguarding	In Progress	
RB30	Provision of Laptops to service users	Planning	
RB31	Establishments Themed Review	Planning	
RB32	Resilience and Emergency Planning Service	To Commence - Q4	
RB33	Gypsy and Traveller Service - Pitch Allocation and Charging	To Commence - Q4	
RB34	Kent Scientific Service	Planning	
RB35	EU Transition Planning	To Commence	
RB36	KCC support to Kent businesses - e.g. Kent and Medway Business Fund	To Commence – Q3	
RB37	Blue Badge Applications Process	In Progress	
RB38	Highways Term Services Commissioning Project (HTSCP)	Ongoing	
ICT01	IT Cloud Strategy, Security and Data migration	To Commence – Q3	
ICT02	IT Access Controls/ User Accounts – for DSP Toolkit	Planning	
ICT03	Cyber Security - Management of Backups for Applications, Data and active Network Devices.	To Commence – Q3	
ICT04	Cyber Security - Management of Firewall rulesets/ Anti-virus and Anti-Malware Software	To Commence - Q4	

B. Work Carried Forward From 2019-20:

Ref	Audit	Status as at 25.09.20	Assurance
1	Strategic Commissioning (Purchase to Pay Process)	In Progress	
2	Deprivation of Liberties - Progress with Addressing Backlog	Draft Report	
3	ASCH – Winter Pressures	In Progress	
4	Change for Kent Children	Final Report	Adequate – GAC Oct 20

C. Grant Certifications:

No.	Grant	Description	Status as at 23.09.20
1	EU Interreg - BHC21	To contribute to the development of more efficient and effective vocational training services for low-skilled people and develop a generic 21st century training model to reduce unemployment rates amongst low-skilled people.	1 Claim Completed
2	EU Interreg - Empower Care	To create resilient communities and reduce individual frailty and loneliness, addressing issues facing the care of our aging population	1 Claim Completed
3	EU Interreg - Ensure	Making use of the community peer to peer support, which will allow societies to become proactive in addressing circumstances which create vulnerability across Kent.	1 Claim Completed
4	EU Interreg - FRAMES	Assess the impact of and build resilience to flooding and climate change across the health and social care sector in Kent.	1 Claim Completed
5	EU Interreg - H20	Overcoming barriers to integrated water and ecosystem management in lowland areas adapting to climate change.	1 Claim Completed
6	EU Interreg - TICC	Implementing an integrated community team at a pilot site to work with the principles of Buurtzorg (A Dutch home-care model known for innovative use of independent nursing teams in delivering relatively low-cost care).	1 Claim Completed
7	EU Interreg - Triple A	Supporting homeowners to adopt different low-carbon technologies in their homes.	1 Claim Completed
8	EU Interreg - Upcycle your waste	The programme will run over three years and aims to support SMEs in reducing their running costs by handling and transforming their waste into new resources for the community.	1 Claim Completed
9	EU Interreg - SIE	Evaluating and improving business support services for SMEs specifically related to exporting and internationalisation.	On-the-Spot check in progress
10	Department for Transport - Capital Funding Grant	Capital Block Funding (Integrated Transport and Highway Maintenance)	Completed
11	Department for Transport - Capital Funding Grant	Capital Block Funding (Integrated Transport and Highway Maintenance) (Live Lab Trials)	Completed
12	Department for Transport - Capital Funding Grant	Local Transport Capital Block Funding (National Productivity Investment Fund)	Completed
13	Connecting Europe Facility	A2-M2 works	Completed
14	Department for Transport - Capital and Revenue Funding Grant	Kent Traffic Management System: (Operation Brock) grant	Completed
15	Department for Transport - Capital Funding Grant	Network Requirements for Additional Work at Manston	Completed
16	Department for Transport - Capital Funding Grant	Ashford Truck Stop Works and Ashford Borough Council	Completed
17	Department for Transport – Bus Service Revenue Grant	Kent County Council Bus Service Operators Grant	Completed

Appendix B – Summaries of Completed Audit Reviews

A1 - Annual Governance Statement Returns for 2019/20

Audit Opinion	Adequate
Prospects for Improvement	Very Good

To inform the overall Annual Governance Statement (AGS), all four Directorates are required to complete returns highlighting any issues managed through the year and to certify compliance with the Council's Constitution and Schemes of Delegation.

Services have all completed their AGS Returns confirming that they continue to have the right resources and have complied with the Constitution and Schemes of Delegation. Budget pressures will remain a key issue due to the impact of Covid-19. Progress against issues raised in previous AGS highlighted around 25% from 2017/18 and a further 39% from 2018/19 remain in progress.

Testing found that issues raised in last year's audit of the 2018/19 AGS return had been resolved, including inclusion of a mechanism to receive assurance from LATCO/ Holdco governance arrangements.

Key Strengths

- Each AGS return had been discussed at DMT prior to submission to agree its accuracy.
- Each Staff Officer from each Directorate coordinated evidence to support progress against each issue sampled.
- There are reasonable safeguards in place to ensure that the AGS remains current at the point of publication.
- Issues from last year's AGS audit have been fully resolved, including enhancement to the AGS process.
- Mechanism in place to receive assurance regarding LATCO/ Holdco governance arrangements.

Areas for Development

- There are a significant number of issues raised from 2017/18 and 2018/19 which remain unresolved in the new system.
- There are a number of gaps in the new issues raised within 2019/20 including a number of sections of the Council which have raised no new issues.
- There is an ambition to make the AGS a 'living process' however, currently specific conversations regarding the AGS are limited and require to be undertaken more frequently to meet this aspiration.
- Internal Audit identified a number of areas in which lessons can be learnt from this year's iteration to enhance the new AGS process.

Prospects for Improvement

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

- The new more automated process has scope to provide an array of information regarding the governance working of the Council.
- Actions arising from the previous AGS audit have been embedded into the new AGS process.

There is a good track record of continual improvement to the AGS process.

Summary of Progress

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	1	1	NA
Medium Risk	3	3	NA
Low Risk	0	0	NA

A2 - Personal Protective Equipment (PPE)

Audit Opinion	Substantial
Prospects for Improvement	Good

Our detailed work has shown KCC’s approach to distribution and prioritisation of PPE to be an impressive demonstration of effective joint working in an unprecedented time of urgency and uncertainty, with many members of KCC staff working excessive hours to deliver effective outcomes. This is mirrored in the results of internal and external surveys performed by Internal Audit, and feedback from the Kent Integrated Care Alliance (KICA) who have welcomed the collaborative approach KCC have taken in supporting Social Care providers across all parts of the sector in Kent. In addition, Internal Audit were informed that the Army and Kent Resilience Forum (KRF) had performed inspections and were highly satisfied.

Strategic Commissioning have performed an integral role putting in place a triage process for the prioritisation and allocation of PPE and a stock control process for the monitoring of stock levels. KCC has acted as a gatekeeper managing the, at times limited, supply of PPE to ensure that all parties had enough PPE to sustain them for an emergency period and none were left without. At no point did KCC run out of PPE.

Key achievements have been the setup of the portal by KCS for ordering emergency PPE, the utilisation of existing PPE supply chains, and coordination and distribution including the availability of 24/7 accessible stores.

Challenges included the adhoc nature of MHCLG stock deliveries with types and quantities of PPE delivered unknown until they arrive and KRF have agreed that any PPE provided to third-parties from KCC stock will be topped up with MHCLG stock ensuring that KCC does not pay for PPE provided to third parties. In addition, there have been quality issues with some MHCLG stock, although this is outside of KCC’s control it could have a reputational risk to the Council. Amendments have been made to existing working practices to ensure that the most vulnerable members of society are safeguarded and protected.

Internal Audit issued a survey, week commencing 22nd May 2020, to 500 third party recipients of emergency PPE from KCC with responses received from 192 recipients (39%):

- 92% stated that they had received enough PPE to sustain them for a minimum of 3 days
- 66% stated that the PPE received was of the required quality and 87% received the PPE within 1-3 days.
- The vast majority of third-party recipients were very positive regarding the service received by KCC. However, some felt (44%) that the reasons for not having their order fulfilled was not adequately explained to them.

Internal Audit issued a survey, week commencing 22nd May 2020, to 68 internal KCC recipients of emergency PPE a response was received from 33 recipients (49%):

- 94% stated that they had received enough PPE sustain them for a minimum of 3 days,
- 57% stated that the PPE received was of the required quality
- 79% received the PPE within 1-3 days.
- The vast majority of internal recipients were positive regarding the service received.

Key Strengths

- Across the Council, the collaborative working and dedication of staff working around the clock has been fundamental.
- KCS created a portal centrally managed ordering platform in mid-April 2020 to manage requests for PPE stock.
- There was a robust daily triage process in place which reviewed all PPE items ordered on a line by line basis enabling PPE to be prioritised in accordance with need.
- All orders for in demand FFP3 respirator masks were followed up directly with requestors to ensure they were the appropriate mask for the task.
- Checks were performed on third parties to ensure they were bona fide.
- PPE was only distributed to those who met the necessary criteria through self-declaration i.e. confirmed or suspected COVID-19 cases and shielded groups. Self-declaration was routinely checked, and orders rejected if the criteria was not met.
- Analysis of all orders had been completed to identify third parties who were relying heavily on KCC for PPE.
- Testing of a sample of delivery notes and confirmation emails found product quantities recorded and dispatched matched those recorded on the monitoring sheets.
- Robust security, stock monitoring and control processes were in place at the KCS warehouse. These processes have been inspected by KRF and the Army on behalf of MHCLG, Internal Audit were informed that the findings were satisfactory.
- PPE was accessible 24/7 through the set-up of emergency stores.
- Health & Safety have liaised with the Health & Safety Executive and NHS Infection Control to ensure KCC's PPE guidance is appropriate.
- There was a dedicated PPE page on KNet including a guidance flow chart to facilitate risk-based decisions. There was also a training area on Delta including videos on how to properly don and doff PPE.
- The Kent Integrated Care Alliance (KICA) welcomed the collaborative approach KCC have taken in supporting Social Care providers across all parts of the sector in Kent.
- Feedback obtained as part of Internal Audit surveys of KCC staff and third parties has been very positive.

- The Emergency Resilience Team proactively secured donations of PPE which were quality assured by Trading Standards and Kent Scientific Services.
- Demand and the stock position were monitored daily and forecast against three scenarios.
- Six ASCH PPE Leads were set up to manage stock on a short-term basis acting as a central point for ordering, distribution and monitoring of PPE for their division.
- Internal Audit were informed by the PPE leads that existing working practises had been risk assessed to prioritise PPE and reasonable assumptions had been made about how much PPE to order.
- Internal Audit understand, from interviews with ASCH PPE leads, that stock is held securely at local offices with access restricted, although some stock when distributed to practitioners is held in their houses and cars.
- Internal Audit were informed that deliveries of PPE received by PPE leads are reconciled to delivery notes.

Areas for Development

- Feedback from 2/6 PPE leads is that current distribution processes are unsustainable and resource intensive. One PPE lead had to store and manage PPE for distribution at her home.
- One PPE lead was meeting all PPE requests without verifying stock levels held.

Prospects for Improvement

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

- KCC now operates with a 12-week PPE buffer stock, rather than “just in time” for the foreseeable future.
- Supply chain disruption has eased and requests for mutual aid have declined since the week beginning 18th May 2020.
- As part of KCC’s strategy, third parties are now signposted to alternative means of PPE supply where possible, so they are no longer reliant on mutual aid.
- The Department for Health and Social Care (DHSC), with partners have developed its own emergency PPE portal which is now fully operational.
- 62% (119) third parties surveyed by Internal Audit, as at 22nd May 2020, stated that they were still unable to meet all their PPE requirements from their usual provider. Issues stated included supply issues, greatly increased prices and that ordering was “hit and miss. “

Summary of Progress

	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

B1 – Supplier Relief Payments – Management letter

Introduction

As part of prioritising and adapting its service provision to reflect the new demands and issues faced by the Council in light of the Covid-19 outbreak, it was agreed that Internal Audit would undertake a review of measures implemented by the Council, as directed by Cabinet Office to support suppliers in the form of Supplier Relief payments.

The objective of this review was to provide assurance that Supplier Relief payments to suppliers are in accordance with the Cabinet Office guidelines and have been subject to robust due diligence and financial control.

In June 2020, however, as the processes were still not yet formalised or fully embedded, it was agreed that Internal Audit would undertake the work in two phases:

- Phase one would comprise a Management Letter and initial observations
- Phase two will be conducted later in the year and will include an audit of the fully embedded process, including reconciliations of payments made and a review of the due diligence undertaken.

Background

In March 2020, the Government issued advice and guidance to all public sector bodies urging them to consider offering relief to their suppliers until the end of June 2020. This was subsequently revised to the end of October 2020 after the Cabinet Office issued updated guidance on 9 June 2020. The Procurement Policy Notes (PPN) issued by the Cabinet Office, set out information and guidance for public bodies on payment of their suppliers to ensure service continuity during and after the current coronavirus, COVID-19, outbreak.

The Leader of the Council and Cabinet Member for Adult Social Care and Public Health subsequently issued a letter to suppliers, setting out the measures that the Council may consider in order to provide stability and certainty to suppliers during this period. It directed suppliers who considered themselves 'at risk' of not being able to continue to provide services or to resume normal contract delivery once the outbreak was over, to contact the Council via one of three email addresses listed.

In addition, as an immediate step, the Council implemented measures to support the social care provider market in Kent, and the capital construction programme, through temporary contracts, advanced payments and the approval of additional funding. Steps were also taken to ensure that validated invoices were paid immediately on receipt, wherever possible, and ensured any outstanding payments were processed as quickly as possible. Suppliers were also encouraged to invoice on a more regular basis to support their cash flow. Finance also commissioned a consultancy to aid in identifying those suppliers at greatest risk to ensure they were not missed.

This initial report did not provide a formal assurance opinion but was a management memorandum to highlight issues and advice provided by Internal Audit to ensure appropriate actions can be implemented as soon as possible.

Initial Observations

Internal Audit held discussions with representatives from both Finance and Strategic Commissioning in order to determine what mechanisms had been established and implemented to facilitate relief payments. The initial findings were:

- The Council responded rapidly to the instruction from the Cabinet Office. However, the approach adopted initially was disjointed and lacked clear direction, with ownership, roles and responsibilities not defined or communicated. This was problematic given the speed at which the Council implemented these new measures. Because of the devolved approach taken, Directorates may have approached implementing relief in different ways. Indeed, both Finance and Strategic Commissioning began developing their own processes and procedures in isolation (although they are now working collaboratively).
- Finance developed a COVID-19 Log for each Directorate to capture the forecast expenditure reconciled to the Oracle actuals and IProc commitments. This financial information is reconciled on a weekly basis and is used to inform the central government submission made by the Revenue and Tax Strategy Team. The Finance Logs include the Supplier Relief details which were initially captured by Strategic Commissioning. However, accounting methodologies were still being developed and there has not yet been any analysis of the payment data to identify any duplicate claims and / or payments.
- It is unclear whether management information requirements in respect of Supplier Relief payments have been clearly defined, in order to inform the further enhancement of ongoing activities.
- The guidance and procedure document produced by Strategic Commissioning has been disseminated to Contract Managers and Commissioners. However, it is unclear whether this documented procedure has been comprehensively adopted by all staff involved in the Supplier Relief process. Furthermore, this document has not been formally approved by the Council's Corporate Management Team (CMT).

- The Decision Log template developed by Strategic Commissioning (with input from both Finance and the Counter Fraud team) which will be used to document the specific details of relief provided to individual suppliers and identify any 'gaps', has also been disseminated to Contract Managers and Commercial leads. However, this template had not been formally approved by CMT and work to populate it with the required detail was yet to commence. The populated Decision Log would be key to any future analysis to identify potential duplicate or unnecessary payments which may need to be recovered.

UPDATE: *Internal Audit were advised that the final format of the Decision Log has been agreed and work is underway to update the Decision Log with the information contained within the Finance Logs. A process will then be agreed to ensure that any new requests are considered following close liaison with Finance and Commissioning.*

- Current resource within Finance and Commissioning may be insufficient to retrospectively populate the Decision Log template and undertake the due diligence required for any new requests for supplier relief.
- Strategic Commissioning have maintained a record of relief claims made via the mailboxes. However, again there is uncertainty over the number of suppliers who may have approached both commissioners and contract managers directly. Given the absence of robust financial checks already referred to, there is an increased risk of fraudulent and duplicate relief payments going undetected.
- There were significant gaps in the extent to which due diligence and financial checks have been undertaken to date.

Once Finance have updated the Decision Log with the information contained within their Covid-19 Logs, they will be shared with the Directorates to 'plug the gaps' and answer the non-finance related questions (such as, what Central Government support the supplier has accessed, have we agreed open book accounting, who approved the relief, what is the evidence for that approval, etc.).

This process will allow identification of duplicates and any relief not visible against the Supplier Relief budget code and provide a good foundation to work out where further information is required.

- The total forecast cost of Supplier Relief is not yet clear with uncertainty as to whether government funding will be sufficient to cover the relief being provided. This could be further exacerbated by uncertainty over the criteria central government will apply to individual supplier relief decisions made by KCC, which could result in individual cases being rejected. In this context, the Council's approach places significant reliance on retrospective due diligence.

Conclusion

Internal Audit recognises the significant work undertaken by both Finance and Strategic Commissioning to date, and the collaborative relationship developed over the past three months, as well as the way in which individual Council officers have taken the initiative in developing processes and procedures.

However, significant risks remain, particularly the underlying uncertainty over funding from central government and increased risk of fraud. It is therefore imperative that the Council's CMT ensures there is sustained focus and support to ensure this programme of relief is kept on a sound basis, balancing the level of control needed to safeguard the public purse with the principal objectives of the relief being provided.

Recommendations:

Management should ensure:

- There is clear communication, direction, ownership, transparency, and clearly defined roles and responsibilities for all staff involved. This should also ensure there is a continued cohesive and collaborative working relationship between all parties involved (Finance, Commissioning, budget holders etc), including support from the Counter Fraud team in assessing the risk of fraud, financial irregularities and any data analytics.
- Information requirements are clearly defined, subject to regular management review and used to inform the further enhancement of ongoing activities. This will allow Senior Management to track performance and identify emerging risks.
- There is sufficient evidence to confirm that an appropriate decision process had been carried out at the right level to approve the approach, processes and procedures established in response to Covid-19.
- Appropriate controls to minimise the risk of fraud during initial eligibility determinations and to detect potential duplicate payments once claims for relief have been processed are established as soon as possible. This should include confirming the accounting processes and defining a robust retrospective due diligence process.
- Directorate risk registers are updated to reflect the increased risk of fraud from Supplier Relief payments.
- The guidance and procedure developed by Strategic Commissioning for Supplier Relief payments is formally approved and mandated for use by all relevant staff.
- The Decision Log is formally approved, and sufficient resource is made available to populate it with the required supplier information, including the necessary due diligence.
- Contingency planning is undertaken to consider the likely impact of a potential second peak towards winter 2020.

B2 - ICT Asset Control (Covid-19 Impact)

Audit Opinion	Limited
Prospects for Improvement	Adequate

At the briefing presented to the Governance and Audit Committee on 13 May 2020, it was agreed that Internal Audit would undertake a review of the controls in place to address the increased risks regarding ICT asset management during the Covid-19 pandemic.

The audit intended to provide assurance over asset management controls at a time of change in response to the Covid-19 pandemic and the need to support staff in working remotely – in most cases from home. There was a need to rapidly purchase and distribute additional ICT assets such as laptops and allow staff to move monitors and other peripheral IT equipment from KCC buildings.

Cantium Business Solutions (CBS) is responsible for ensuring (as part of the commissioning contract) that KCC ICT assets are managed in a controlled manner which protects the organisation from financial loss. The Asset Inventory is currently maintained via Service Now which is used to record ICT equipment from the point it is ordered to its receipt by CBS and onward allocation to individual members of KCC staff.

Responsibility for peripheral IT equipment (such as monitors, keyboards etc) located in offices and other premises is devolved to KCC line management. As such, if these assets are removed, it is anticipated that a local record would be retained in order to track these items.

The Council responded rapidly to the challenges faced as result of the Covid-19 pandemic, balancing strategic decisions regarding risk appetite and controls to safeguard assets, with the equipment necessary for staff to work remotely in an effective and productive way.

Key Strengths

- KCC Infrastructure and CBS worked together and acted rapidly to address the needs of services and individuals, enabling them to move to remote working at short notice. This involved reallocation of existing ICT equipment and the purchase and distribution of new equipment.
- There are documented procedures in place for requesting new ICT assets, recording and issuing ICT assets to members of staff, returning ICT assets that are no longer in use and remotely wiping mobile devices that are lost or stolen.
- The Council’s ICT asset inventory records all required information including individual asset number, who the asset has been assigned to, asset owner, a description of the asset and its current status.
- Software has been implemented to manage mobile devices, including the facility to remotely wipe devices that are lost, stolen or no longer in use.
- There are arrangements in place for monitoring and reporting of incidents.

Areas for Development

- The approach adopted for managing the removal of peripheral equipment from offices and implementation of COVID secure measures was communicated through kNet messaging to staff but lacked detail on the expectations of managers in the process. In particular, the roles, responsibilities and accountabilities were not explicitly defined or communicated. KCC managers overseeing the removal of peripheral equipment by their staff have subsequently managed the process in different ways. There is significant uncertainty as to the completeness of any ad hoc inventory records of ICT assets removed.
- The Council's ICT asset inventory was found to be incomplete with key information missing or out of date – for example assets in use without defined users and no directorate, department, team identified and status.
- New ICT asset allocations deviated from business as usual procedures with multiple devices being collected and dispensed by KCC managers. Subsequently, reliance has been on the KCC managers to inform CBS of staff usernames / asset ID's so these could be reflected on the inventory. A number of mobile devices have been allocated to users without being subject to the usual ICT asset management policies and procedures.
- There is no direct correlation between the KCC ICT Asset Management Policy and Standard adopted by CBS and relevant ICT asset management procedures. It was not possible to confirm all procedures were up to date and the Internal Audit review identified anomalies/ lack of clarity in some of the procedures (those for managing lost or stolen ICT mobile assets and the mobile devices).
- The ICT asset inventory does not include a defined lifecycle for individual assets including the date of purchase and date when an asset has been assigned to a user.
- There are no arrangements in place currently to perform an annual physical inventory or routine reviews and audits of the ICT asset inventory to ensure it is up to date, accurate and complete.

Prospects for Improvement

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

- Management and staff were made aware of the areas for development identified throughout the audit.
- Action is beginning to be taken to address some of the issues identified in this report with action plans being developed.

Summary of Progress

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	3	3	n/a
Medium Risk	3	3	n/a
Low Risk	0	0	n/a

C1 – Change for Kent Children

Audit Opinion	Adequate
Prospects for Improvement	Good

The audit highlighted there are sound governance structures surrounding the programme and there is clear leadership and positive tone from the top. There is detailed monitoring of the Programme performance and achievement of objectives through the individual workstreams although there were some areas of improvement noted.

The Programme Team offer support at a programme and project level and there is a good use of project tools to manage the activity, although it was noted that not all of these tools were complete and actively used. There is risk that these are seen as owned by the project support rather than live documents for the teams to manage individual projects.

Work is completed to assess the programmes progress against the stated outcomes in the business case and there has been significant slippage and subsequent re-profiling of savings made. It was the intention of the programme to re-assess progress and financial position at this point however it would be beneficial to monitor this on a more regular timely basis.

Key Strengths

- The production of monthly monitoring reports at the steering group, and the call in of individual projects on a regular basis provides ample opportunity for monitoring of project progress and performance and allows for effective oversight and challenge.
- There is scrutiny at steering group meetings, with individual workstreams attending to present progress and key measures/finance/risks on a regular basis.
- The regularity of meetings and the seniority of staff on both the workstream groups and steering group to ensure challenge and decision making are timely. This also provides gravitas and influence in the achievement of the programme's objectives.

- Roles and responsibilities within the programme and individual workstreams are clearly defined, and the governance structure allows for programme and workstream decisions to be made in line with KCC delegation. Furthermore, terms of reference include the requirement to report to the Strategic Delivery Board.
- Workstream leads are clear on what decisions, risks and issues should be escalated to the steering group, and there is evidence that key risks and issues have been raised and discussed with the steering group.
- The Programme Support Function gives valuable expertise and support to projects and there are regular meetings with leads.
- Objectives of the programme align with strategic objectives.
- KPIs are clear and generally aligned with the non-financial benefits stated in the business cases, although there were some minor exceptions (see Areas for Development).
- There is evidence to show that monitoring reports are reviewed at each workstream and steering group meeting.
- Spend associated with the programme is captured under individual budget codes for workstreams and is reviewed at monthly budget meetings with finance colleagues. Overspend and underspends are accurately reported as part of the monitoring reports, however these are completed annually and do not reflect an accurate position for the project as a whole (See Areas for Development).
- Savings and cost avoidance for the project have been calculated for the first year. Due to delays and under achievement, the programme has requested to reprofile the remainder over additional years. Savings have not been monitored more regularly (see Areas for Development).
- There is a wealth of internal communication channels for CYPE and KCC staff, and good examples of engagement and inclusion of external stakeholders. There could be improvement in the planning and evaluation of communications.

Areas for Development

- Business cases have not been regularly revisited during the first year of the project. A review has now been completed and approved but project documentation including project plans and expected benefits require updating.
- There has been slippage in all workstreams both in timescales and/or achievement of project benefits, in part, caused by delays in projects due to underestimating the complexity in project start up or over ambition in the starting position of the service and delivery timescales.
- Savings and cost avoidance are not regularly monitored, although analysis and re-profiling of savings has taken place and presented to the Strategic Delivery Board.
- There are instances where underspends for the first year of the projects have been rolled into future years with the consequence that the forecast spend for the whole project is not accurate.
- Over and underspends are clearly identifiable from regular monitoring however savings and cost avoidance are not monitored/measured and, therefore, the impact of changes to the scope and timescales is not effectively assessed.
- The Communication Plans for the Programme and major transformation workstreams are incomplete and do not exist for others. With the exception of specific workstreams, there is generally a lack of evaluation of the effectiveness of communication.
- The risk registers in use do not have completion dates for mitigating actions and it is not clear how effectively these are monitored once identified, assessed and recorded. Also, there is no single risk register for the programme as a whole.
- Issue logs are kept and new issues are added, however a lack of action completion dates and review at project meetings shows these are not used as active tools to manage project issues to ensure resolution.
- KPIs largely align with stated benefits/outcomes but there are some gaps in monitoring where data is not yet available and also where it is stated targets/success criteria are not yet set. There are also a few examples such as 'improved quality of service' where the current measure does not effectively evidence achievement against the desired outcome.

Prospects for Improvement

Our overall opinion is **Good** for Prospects for Improvement

Summary of Management Responses

	Number of Issues Raised	Management Action Plan Developed	Risk Accepted and No Action Proposed
High Risk	0	0	N/A
Medium Risk	3	3	0
Low Risk	3	3	0

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By: James Flannery – Counter Fraud Manager
To: Governance and Audit Committee – 8th October 2020
Subject: **COUNTER FRAUD PROGRESS REPORT**
Classification: Unrestricted

Summary:

This report details:

- The Counter Fraud activity undertaken for Quarter 1 of 2020/21, including reported fraud and irregularities.

Recommendation: FOR ASSURANCE

Introduction

- 1.1 This report outlines Counter Fraud work which has been undertaken in Quarter 1 of 2020/21, the report provides:
- An overview of the work of the Counter Fraud Team;
 - details of savings identified through counter fraud activity; and
 - a spotlight on the volume and variety of investigations work that the Counter Fraud Team undertakes and the competing priorities.

Irregularity Referrals

- 1.2 Referral rates are a good indication to demonstrate awareness of fraud risks. The dynamics of the Covid-19 pandemic has seen a rise in the number of cyber enabling fraud attempts in Quarter 1. The main targets have been schools where spear phishing emails have been directed to finance staff pretending to be the Head Teacher requesting immediate payments to be made in the region of £7k. As would be expected with the impact of a county wide lockdown, the fraud and misuse within blue badges in Quarter 1 reduced significantly.
- 1.3 For Quarter 1 for 2020/21, there were 63 suspected irregularities (Trend analysis shown in tables below) reported to the Counter Fraud Team (compared to 77 during the same period in 2019/20). The distribution and characteristics of the irregularities reported to date show that the highest areas of financial risk so far this year were spear phishing frauds against schools.
- 1.4 Actual fraud losses for Quarter 1. 2020/21 were £693 with potential and prevented fraud losses equating to £352,464. Prevented fraud losses will fluctuate depending on the nature of cases referred.

Spear Phishing/ Cyber Extortion

- 1.5 Spear phishing is the fraudulent practice of sending emails ostensibly from a known or trusted sender to induce targeted individuals to make payments, in the cases the Counter Fraud Team have been made aware of fraudsters have attempted to obtain between £7k - £9k. At the start of lockdown, when schools were particularly targeted by this fraud type, the Counter Fraud Team provided guidance to schools on this increased risk and how to mitigate against it. No actual fraud losses were incurred by the schools who reported they had been targeted. The majority of prevented fraud losses reported in para 1.4 comes from these financial irregularities (£339,820).
- 1.6 Cyber Extortion is the practice of sending threatening emails requesting payment to prevent disclosure of personal information. They will usually include details harvested from the dark web about the persons usernames and passwords to provide some authenticity to the personal information they would release if payment is not received, no actual losses were incurred.
- 1.7 Alerts were issued to schools on both spear phishing and cyber extortion during this period to inform schools of this heightened threat. This included engaging directly with victims to reassure and support them in taking the appropriate action. All referrals were reported to Action Fraud to provide intelligence to the police. Action Fraud is the UK's national reporting centre for fraud and cybercrime. The service is run by the City of London Police working alongside the National Fraud Intelligence Bureau who are responsible for assessment of the reports and to ensure that fraud reports reach the right place.

Abuse of Position, Payroll and Contract Fulfilment

- 1.8 There have been three new referrals relating to Abuse of Position, Payroll and Contract Fulfilment, received this quarter.
- 1.9 With the change of demands, working practices and control environment that the Council has experienced during this period the risks around the management of IT assets are being monitored.

Direct Payments

- 1.10 Referrals on Direct Payments have reduced, with only two referrals received in this period. The monitoring of direct payments by the Direct Payments Monitoring Team has continued during this period where clients use the Kent card as the Direct Payments Monitoring Team has direct access to transactional data to monitor spend. Where clients use their own accounts and may not have internet banking this has proved a challenge for the monitoring team during the lockdown period. Counter Fraud are working with the Direct Payments monitoring team to see if there is any additional support the Counter Fraud Team can provide.

Blue Badges

- 1.11 Again, the nationwide lockdown has meant that the risk of people misusing the Blue Badge scheme reduced significantly, with only five referrals received in this period. Proactive work has, however, progressed with two further Councils (Canterbury & Dover) receiving training on how to use the Manage system. This system provides real time information to the Civil Enforcement Officers so they can check if the badge has been cancelled.
- 1.12 Two enforcement days have been tentatively planned depending on the risk levels associated with the pandemic.

Fraud and Irregularity Trends

1.13 The tables below show trends in reported fraud and irregularities:

Table CF1 - Top Seven areas of reported fraud and irregularities over the past 3 years

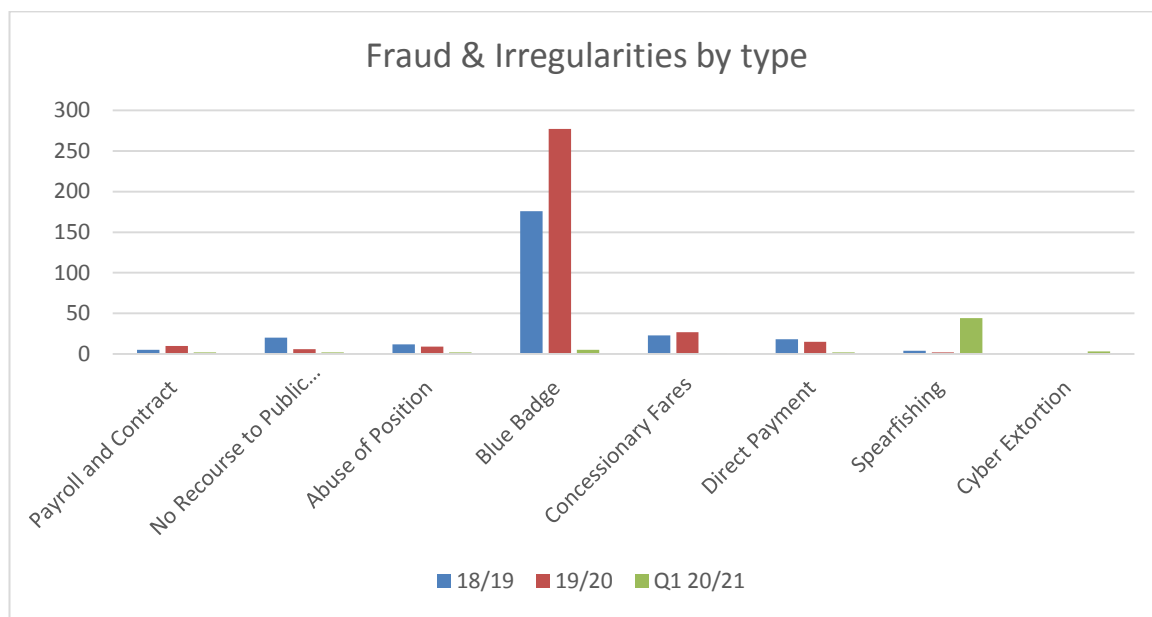


Table CF2 – Number of Irregularities Reported by Month

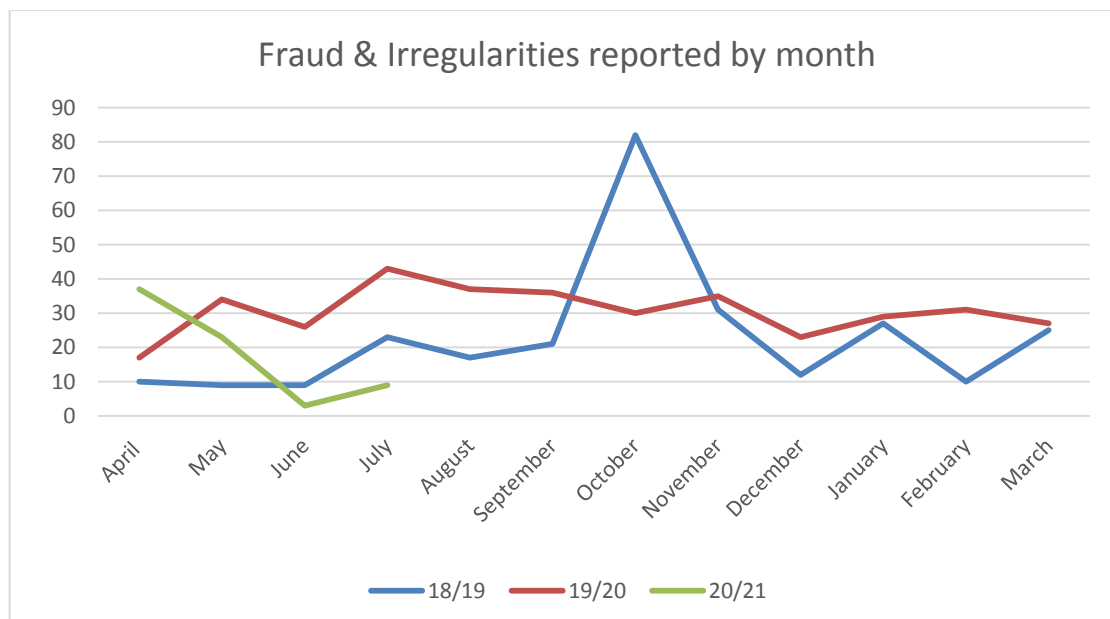
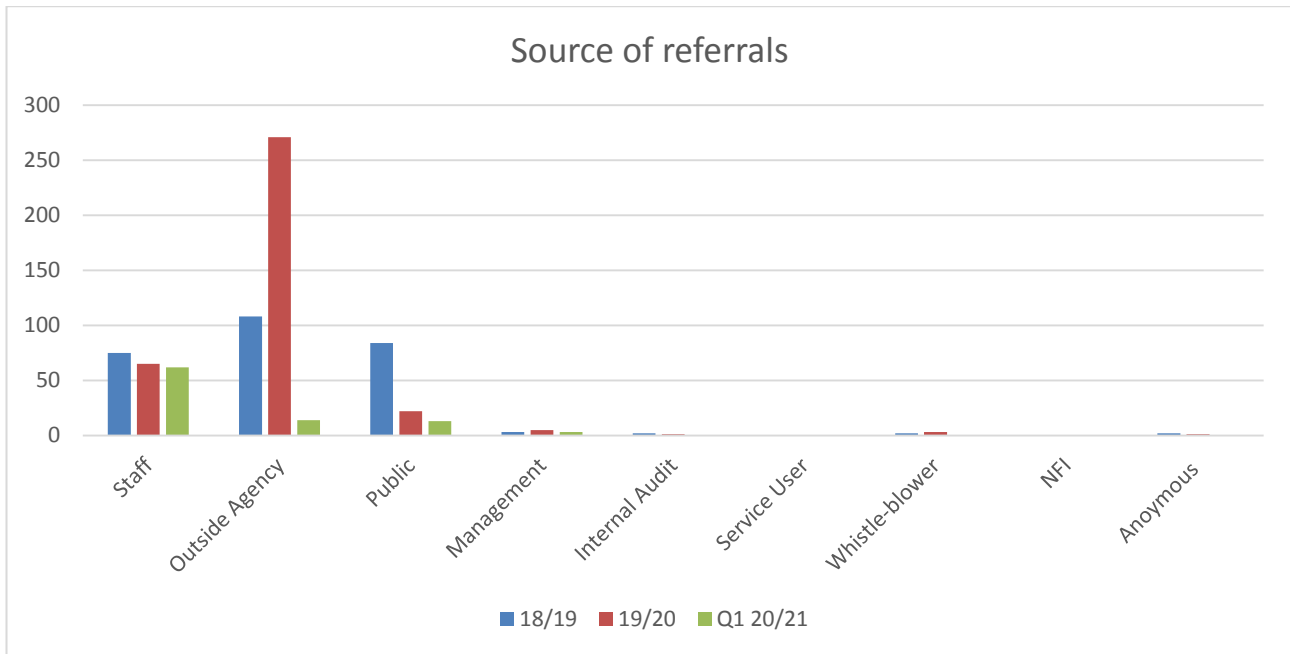


Table CF3 – Referrals by Source



Kent Intelligence Network (KIN)

1.14 The KIN continues to provide support to the District/Borough Councils and the outcomes for Q1, set out below, show some impressive financial returns in the first 3 months of the new financial year.



1.15 26 commercial properties have been identified that were previously missing from the rating list. These properties have now been brought into the list by the Valuation Office Agency and consequently, the businesses occupying these properties are now paying business rates.

1.16 The additional business rates revenue generated from the identification of these missing properties is £2,745,142, of which broadly 9% comes to KCC, and is a combination of the following:

- The total amount of business rates billed for both the current financial year and previous financial years of £1,526,561; and
- A 'future loss prevention' provision of 3 years of £1,218,581. This represents the amount of additional income that would have been lost if the respective properties had not been identified by the KIN.

1.17 The most significant success achieved came about in the Borough of Dartford where two warehouses on the Crossways Business Park were identified, one of which has been occupied by British Gas since 2006. The warehouses are situated next to each other and both have now been brought into the rating list from 1st April 2017 (there is no provision to backdate rating assessments any further than this).

- 1.18 The combined Rateable Value for both assessments is £425,000 and the total amount of business rates billed was £844,900.
- 1.19 The majority of billing authorities currently use a company to help find properties missing from the rating list. This company charges a commission fee for every property found, so because the KIN have picked up these properties before the company concerned has, this has helped to save £79,520 in commission fees for District/Borough Councils.
- 1.20 The KIN has recently expanded its remit and is now starting to identify dwellings missing from the valuation list. So far, 5 addresses have been identified and the occupiers of these dwellings are now paying council tax.
- 1.21 The additional council tax revenue generated from the identification of these properties is £113,329, of which broadly 73% comes to KCC, and is a combination of the following:
- The total amount of council tax billed for both the current financial year and previous financial years of £73,879; and
 - A 'future loss prevention' provision of 3 years of £39,450. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.
- 1.22 Dwellings added to the valuation list also help to generate additional New Homes Bonus (NHB) for both Districts/Boroughs and KCC. It is estimated that the 5 dwellings identified will generate £28,000 in additional NHB, of which 20% will come to KCC.
- 1.23 The financial returns continue to demonstrate the value of the KIN. The Network is also gaining national recognition for the work it is undertaking having been shortlisted as a finalist in the national awards detailed below:
- Fighting Fraud & Corruption Locally 2020 in the category of Outstanding Proactive Fraud Prevention and Recovery Award (awards ceremony on 16th October 2020)
 - Public Finance Awards 2020 in the category of Outstanding Proactive Fraud Detection and Recovery Awards (awards ceremony on 20th October 2020), and
 - Credit & Collections Technology Awards in the category of Best Use of Technology in Credit & Collections, in partnership with Destin Solutions. (awards ceremony on 19th November).

Counter Fraud Plan

1.24 The Counter Fraud plan delivered for this period has been limited due to the national lockdown, however the Counter Fraud Team have continued to make progress against the plan as follows:

Ref.	Counter Fraud Activity	Outline Scope / Rationale	Update
CF01 2021	Fraud Awareness / Detection and Prevention Authority Wide	Plan and deliver a fraud awareness campaign in 2020-21 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.	Fraud alerts have been issued to alert on emerging risks. Planning for International Fraud Awareness week (15-21 November) has commenced, running a digital campaign across KCC. Awareness raising through the completion of Divisional Fraud, Bribery and Corruption Risk Assessments within the 2 nd line of Defence.
CF02 – 2021	NFI	Coordinate the Council's and its LATCO's participation in the National Fraud Initiative	Project plan in place, with data specifications issued to key contacts to extract data on the 30 September ready for upload into the NFI.
CF03 – 2021	Review Policies & Procedures • Anti-Fraud Strategy • Whistleblowing • Bribery • Code of Conduct	Review each policy annually ahead of the April G&A Committee and ensure that this is presented to CMT and once agreed to be communicated across KCC management via Kmail for managers.	All reviewed and reported to CMT and G&A except Whistleblowing, this is currently under review working with HR as policy owners.
CF04 – 2021	Kent Intelligence Network	Actively participate in the Kent Intelligence Network and develop data matching proposals to increase detection of fraud at KCC and across Kent authorities	Ongoing, Information Governance issues have resulted in the need to revisit the DPIA to ensure the matching is not high risk. Data matching on Council Tax and Business Rates continues.
CF05 – 2021	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments	To ensure that key Senior Stakeholders are kept up to date on the fraud risks and mitigation: • Leader as Portfolio Holder • CMT (In particular, Head of Paid Service, S.151 and Monitoring Officer) • Corporate Directors • Governance and Audit Committee • Directorate/ Divisional Directors	Counter Fraud Report issued to Leader and CMT prior to going to G&A. Divisional Fraud, Bribery and Corruption Risks assessment progressing.

Ref.	Counter Fraud Activity	Outline Scope / Rationale	Update
CF06 - 2021	Proactive Fraud Exercise - Schools	Provide Fraud awareness sessions to school finance staff, emerging leaders and governors. Including existing and emerging risks	<p>Virtual fraud awareness session being delivered to Finance Staff on the 05 & 14 October via School Finance Services finance briefing.</p> <p>Fraud awareness training for School Finance Services staff within The Education People on the 13 October to support them in identifying fraud within their compliance work.</p>
CF07 - 2021	Proactive Fraud Exercise - Blue Badges	<p>Provide regular attendance at the parking managers meetings to inform them of latest guidance, what is working well and what needs improving.</p> <p>Provide enforcement awareness sessions to district CEOs.</p>	<p>Two awareness sessions delivered to Canterbury and Dover Councils on blue badge misuse and how Manage can support the detection of misuse.</p> <p>Enforcement Day planned for Tonbridge and Malling Council, however this is under review.</p>
CF08 - 2021	Proactive Fraud Exercise - Social Care	Review the Financial Abuse Toolkit to support Social Care in identifying and managing financial abuse.	First draft completed and reviewed, to be issued to key stakeholders within ASCH & Finance to ensure the document meets the need of the services.
CF09 - 2021	Proactive Fraud Exercise - Commissioning	Work with Commissioning in assessing the fraud risks within the supply chain.	<p>Ongoing – fraud e-learning is essential for all staff in Strategic Commissioning.</p> <p>Working with commissioning in reviewing the supplier set up process to ensure risk based due diligence is in place prior to services/ goods being commissioned</p>
CF10 - 2021	Reactive Investigations	To manage and complete investigations.	During this period, we have closed 62 referrals/ Investigations. One case has been closed as police are progressing a prosecution, 52 cases have been referred to Action fraud and 9 cases have no further action.
CF11 – 2021	Data Analytics - Development Payments	To identify a way to use data analytics to help identify fraud and error within the payments systems.	Not started, planned for Quarter 3/4
CF12 – 2021	Data Analytics - Development Procurement Card Usage	To identify a way to use data analytics to help identify fraud and error within the procurement card systems.	Not started, planned for Quarter 3/4
CF13 – 2021	Covid-19 Fraud Risk Assessments	To update COVID-19 Fraud Risk assessments as new threats emerge.	Completed and ongoing – Fraud Risk Assessment and guidance provided to key officers.

Ref.	Counter Fraud Activity	Outline Scope / Rationale	Update
CF14 – 2021	Supporting Internal Audit on specific audits where there is a fraud risk, through planning, fieldwork and reporting stages as required.	Provide advice and support on key fraud controls in specific audits, support in testing and reporting as required.	Ongoing – All Engagement Plans are reviewed at planning stage to assess and inform the fraud risk in the area being audited.

Counter Fraud Resources

- 1.25 A recruitment process was progressed during this period, this has seen a change in the structure of the Counter Fraud Team, which includes now having 2.6 FTE Counter Fraud Specialists (previously 1.8). The new member of staff has joined the team from the Metropolitan Police where they were an Acting Detective Sergeant and this will provide the team with additional skills in policing practices and approaches in particular in managing vulnerable people within an investigation.
- 1.26 A Counter Fraud Apprentice has also been recruited to support the referral management process. This was previously the role of a graduate work placement, however as the placement was only for 44 weeks, this limited the amount of training and development this position offered. The apprenticeship is for between 18 – 24 months which provides the opportunity for them to develop further and provide a more sustainable resource for the team.

Conclusions

- 1.27 Referrals are not as high as previous periods; this is due to a certain amount of disruption caused by the lockdown and the risk profiles changing on some of the fraud types. There has also been some disruption in progressing face to face interviews, which has been overcome by using Microsoft Teams and progressing interviews at Police Stations whilst the KCC property estate is being made Covid safe.

Recommendations

- 1.28 The Governance and Audit Committee note the Counter Fraud Update report for quarter 1 2020/21.

James Flannery, Counter Fraud Manager

03000 416092, james.flannery@kent.gov.uk Sept 2020

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By: Jonathan Idle, Head of Internal Audit
To: Governance and Audit Committee – 8th October 2020
Subject: **INTERNAL AUDIT EXTERNAL QUALITY
ASSESSMENT PROCESS**
Classification: Unrestricted

Summary: This report provides Members with an overview of the requirements set out in the Public Sector Internal Audit Standards in relation to an External Quality Assessment (EQA) of the Council's Internal Audit service and to inform Members of the planned approach to ensure an EQA is procured and completed by 31 March 2021.

FOR DECISION

Introduction and Background

1. The Public Sector Internal Audit Standards (Standards) require that the Chief Audit Executive (CAE – Head of Internal Audit) develop and maintain a quality assurance and improvement programme (QAIP). The Standards demand that this programme includes a process whereby the Internal Audit function is the subject of regular internal and external assessments. The purpose of these assessments is to confirm compliance with the Standards and to provide assurance to all stakeholders that the Internal Audit function is operating efficiently and effectively.
2. The Standards stipulate that an internal assessment must be completed periodically, and an external assessment, by an independent body, must be completed (as a minimum requirement) at least every five years.
3. The last external quality assessment (EQA) of the Kent County Council Internal Audit service was completed in April 2015. In order to satisfy the Standards, the next EQA should have been completed by April 2020. Due to Covid-19, however, a decision was made, after seeking advice from the Institute of Internal Auditors, to delay the EQA for later in the year.
4. Failure of not having an EQA completed at least every 5 years, by a qualified, competent and independent person will mean the Internal Audit function is no longer operating in compliance with the Standards and stakeholders may no longer have assurance that the function is operating efficiently and effectively.
5. The following document provides an overview of an approach which could be taken in relation to progressing with and commissioning the Internal Audit External Quality Assessment.

The Standards

6. The Standards cover 14 components which Internal Audit functions must adhere to in order to be assessed as operating in compliance with the Public Sector Internal Audit Standards. The sections covered in the Standards are as follows:
 - Code of Ethics
 - Attribute Standards - purpose, authority & responsibility, independence & objectivity and quality assurance and improvement programme
 - Performance Standards – managing the audit activity, audit planning, performing audit engagements, audit reporting and monitoring implementation of agreed actions.
7. The Standards require that the CAE must discuss the format of the external assessments with the Audit Committee / Audit Board and this discussion should encompass the following:
 - The costs of the different approaches
 - The potential advantages of an external viewpoint
 - Whether there are any factors to be considered to warrant an independent assessment.
8. The Standards require that an independent and competent person must be sourced to avoid any conflict of interest and impairment to objectivity. The assessor should also be appropriately qualified to carry out the assessment.
9. The Standards also require that an appropriate sponsor must be sourced for the EQA.

Proposed Assessment / Review Process

10. Table 1 sets out an overview of the two main options available for the EQA. The table also includes the estimated costs, the advantages of each option and other factors to consider:

Table 1 – Options for EQA:

	FULL ASSESSMENT	VALIDATION OF SELF-ASSESSMENT
Details	This would be a full independent assessment of the Internal Audit function against the Standards	This would require the Audit Team to complete a full self-assessment of the service to check for compliance against the Standards. The self-assessment would be completed using a standard checklist, which is provided as an appendix to the Standards and the supporting Local Government Application Note. The self-assessment document and supporting evidence would then be reviewed and evaluated by an independent person to determine the level of compliance with the Standards
Estimated cost	£20,000	£5,000 - £10,000
Advantages	<p>Full and independent compliance check against the Standards</p> <p>Assessor sharing best practice from other recent EQA's</p>	<p>Whole Team involvement in the self-assessment exercise to increase knowledge and accountability of the Standards and to contribute to Team members continuing professional development</p> <p>Opportunity to remedy gaps in the self-assessment at an early interval</p> <p>Budget savings</p>
Considerations	<p>Budget capacity</p> <p>Assessor availability</p> <p>Time commitment during the assessment</p>	<p>Team resources to complete the self-assessment and compile relevant evidence</p> <p>Self-assessment may not accurately represent current position</p> <p>Availability of suitably competent and qualified person to carry out assessment</p>

11. Following discussions with the Head of Paid Service, the S.151 Officer and the Chair of the Governance and Audit Committee, it is proposed that the approach for the forthcoming EQA should be to commission a **self-assessment validation**, using an independent and experienced assessor.
12. The justification for this is because the Council and the Internal Audit Team, based on previous self-assessments, already have a detailed understanding and appreciation of where the audit service is in respect of compliance with the Standards.

What will the self-assessment validation involve?

13. The validation of our self-assessment is likely to include the following:
 - A review of key documents and audit file reviews
 - On-site interviews with key personnel / stakeholders
 - A detailed findings report, with recommendations / actions
 - Confirmation of compliance with the Standards
 - Potential areas for improvement and best practice.

What happens Next?

14. In order to progress the EQA process further the following steps set out in Table 2 need to be completed:

Table 2 – EQA Actions:

	Action	Notes
1	Agree a client sponsor for the EQA	The Sponsor is Zena Cooke, Corporate Director, Finance & s.151 Officer.
2	Agree the authority lead for the procurement exercise	The procurement exercise will be completed under Kent County Council's procurement arrangements. An initial discussion has already been had with the Procurement Team to agree the best way to approach the procurement exercise.
3	Identify potential suppliers to complete the self-assessment validation EQA and seek at least 3 quotes	A number of potential suppliers can be contacted to request a further discussion about commissioning an EQA and obtaining a quote.
4	Prepare an EQA specification document	An EQA specification document has been prepared and will be discussed and agreed with the Project Sponsor, the Head of Paid Service and the Chair of the Governance and Audit Committee to agree the terms of the specification and the quotation evaluation criteria in respect of price and quality.
5	Request quotations from at least 3 suppliers	It is anticipated that suppliers will be approached for quotations during October 2020.
6	Evaluation of quotations	All of the quotations received will be assessed against the criteria set out in the specification document. It is intended for a number of key stakeholders to be involved in the evaluation of quotations exercise, including the Corporate Director of Finance, The Head of Paid Service and the Chair of the Governance and Audit Committee.
7	Appointment of supplier and EQA scope agreed	Before the EQA is completed the scope of the assessment will need to be agreed with the successful supplier. This will include the documents and files to be reviewed and any areas of the Standards requiring more detailed review.
8	The Audit Team complete the EQA self-assessment and compile relevant evidence	The self-assessment exercise is a large body of work which needs to be completed in advance of the EQA. The aim is that the whole Team is involved in the self-assessment exercise. The aim is for the self-assessment exercise to be completed before 31 December 2020.
9	EQA self-assessment validation is completed	The successful supplier completes the EQA assessment by 28 February 2021. The assessors will want to speak to key stakeholders as part of their assessment process.
10	Reporting of EQA outcomes	The outcomes from the EQA will be reported to all key stakeholders as soon as practically possible, with the full outcomes report being reported to Governance and Audit Committee in April 2021.

Reporting Arrangements

15. Following the EQA, a detailed report on the findings will be initially be discussed with the Internal Audit service and the Project Sponsor. When this report is finalised, it will then be presented to the Governance and Audit Committee together with an action plan prepared to address any areas for improvement identified.
16. This action plan will be reviewed and updated at regular intervals and updates provided to Members to monitor improvements required as part of our standard progress reports.

Timeline

17. The following timeline is proposed for the EQA exercise:

Table 3 – EQA Timeline:

Date	Activity
October 2020	Quotations obtained and evaluation process completed
October – December 2020	Self-assessment completed and evidence collated by Internal Audit Team
February 2021	Completion of External Quality Assessment
April 2021	EQA outcomes and draft action plan reported to GAC

Summary

18. This report has provided Members with an overview of the requirements set out by the Standards for the Internal Audit function to be externally assessed by an independent and competent body. The report has detailed the options available for the assessment to be completed and a proposal that this be done through an independent validation of the self-assessment. The report has also provided an overview of the suggested timeline and an overview of the 'next steps'.
19. The report identifies a nominated sponsor for the exercise, as detailed in Table 2.
20. Reporting and monitoring arrangements are detailed at paragraphs 15-16.

Recommendations

21. It is recommended that Members:
 - Endorse the approach for the External Quality Assessment of the Council's Internal Audit function.
 - Approve the nominated Sponsor for the exercise.

Jonathan Idle
Head of Internal Audit (03000 417840)

Independent auditor's report to the members of Kent County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kent County Council (the 'Authority') and its group (the 'group') for the year ended 31 March 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, and Notes to the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Corporate Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Corporate Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Corporate Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and pension fund property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, **the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Council's property valuer's report and in the pension fund's financial statements in relation to property valuation reports and pooled property investments.** Our opinion is not modified in respect of this matter. *[NB final wording to be confirmed]*

Other information

The Corporate Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the Authority and group financial statements and, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance. The Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

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The Audit Findings for Kent County Council

Year ended 31 March 2020

30 September 2020

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has dealt with the administration of grants to businesses, getting PPE to frontline carers, the closure of schools, building additional mortuary capacity, staff re-deployment, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness accuracy of information produced by the entity through screensharing.</p> <p>The uncertainties resulting from the pandemic have impacted on the valuations for property including the property investments held in the pension fund. This is reflected in the material valuation uncertainty included by the valuers in relation to these assets.</p>
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Headlines

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p>	<p>Our audit work was completed remotely during July-October. Our findings are summarised on pages 7 to 11. We have identified 2 adjustments to the financial statements that have resulted in a £NIL adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p>
	<ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the following outstanding matters;</p>
Page 154	<p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<ul style="list-style-type: none"> • Completion of PPE valuation testing • Completion of sample testing of creditors; • Completion of cash at bank testing; • Completion of disclosure review including financial instruments note; • Review of the level of bad debt provision; • Receipt of assurance from the Kent Pension Fund auditor; • Receipt of third party confirmation of 3 school bank balances; • Final internal review procedures; • Review of final Annual Governance Statement; • Whole of Government accounts consolidation pack audit procedures; • Receipt of management representation letter – see appendix F; and • Review of the final set of financial statements including group accounts.
		<p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting PPE valuation material uncertainties for both the Council property and their share of assets included in the IAS 19 pension fund actuarial position.</p>

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Kent County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 23.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit. 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we are able:</p> <ul style="list-style-type: none"> • to complete our work on the Council's Whole of Government Accounts consolidation pack; and • issue our report on the consistency of the pension fund financial statements once the Pension Fund Annual Report has been prepared.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group and Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that analytical procedures were required, which was completed by the audit team.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 8 October 2020, as detailed in Appendix D. These outstanding items are outlined on page 4.

Our approach to 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.

Materiality levels remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	35m	34m	1.5% of prior year gross expenditure
Performance materiality	26.25m	25.5m	75% of materiality
Trivial matters	1.75m	1.7m	5% of materiality
Materiality for senior officers' remuneration	n/a	100,000	Lower level of precision for detecting errors in these specific accounts

Significant audit risks

Risks identified in our Audit Plan

Covid- 19

Auditor commentary

We:

- Worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach;
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

ISA240 revenue recognition risk

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Findings

There are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan**Auditor commentary****Management override of controls**

We:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of the pension fund net liability

We:

- updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and
- obtained assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

We have also considered the movements within the IAS 19 report described as 'experience' items arising due to the triennial review and updates to the issues arising from the McCloud case. Following discussion with the actuary and management we have sufficient assurance.

The Kent Pension Fund accounts intend to include a material valuation uncertainty disclosure with regards to the valuation of directly held property and pooled property investments as a result of Covid-19. Given the Council's share of these assets is material, we have requested that the Council refer to this in the notes to the accounts and we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.

The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Significant audit risks

Risks identified in our Audit Plan

Auditor commentary

Valuation of land and buildings (Rolling revaluation)

We:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- wrote to the valuer to confirm the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation.
- tested revaluations made during the year to see if they had been input correctly into the Authority's asset register
- evaluated 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 at year end.
- Considered the implications of Brexit on the valuations of the Authority's asset portfolio; and
- Considered the implications of Covid-19 on the valuations of the Authority's asset portfolio

Findings

The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.

The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Other audit risks

Risks identified in our Audit Plan**Production of consolidated group accounts****Auditor commentary**

This the first year that the Authority produced group accounts, although the subsidiaries have been in place for a number of years.

We:

- Gained an understanding of the Authority's process for producing group accounts
- Reviewed the consolidation process applied to the 2018-19 and 2019-20; and
- Undertook sufficient audit work to have assurance over the completeness and accuracy of the consolidated figures

Findings


We have obtained sufficient assurance over the consolidation process however we have made recommendations in relation to the process. These can be found in Appendix A.

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary
<p>IFRS 16 implementation has been delayed by one year</p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate with a slight amendment to the wording to be fully compliant..</p> <p>Recommendation</p> <p>In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.</p>
<p>Dedicated Schools Grant</p> <p>The Council had a cumulative overspend of £21.5m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."</p>	<p>We agreed the balance to underlying information and agreed the amount disclosed as part of the unearmarked schools reserve.</p> <p>We requested that the financial statements include additional disclosure to make the offset within this reserve clear to a reader of the accounts.</p> <p>We understand that MHCLG is currently considering how DSG deficits are to be dealt with going forward in local government accounts following the introduction of new DFE regulations for 20/21 about the treatment of DSG deficits..</p>

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
Land and Buildings – Other - £2,203m	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head Eve to complete the valuation of properties as at 31 March 2020 on a four yearly cyclical basis.</p> <p>In line with RICS guidance, the Council’s valuer disclosed a material uncertainty in the valuation of the Council’s land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £540m. Management have considered the year end value of non-valued properties and reviewed the composition of this population and the movement in asset valuations of the revalued portfolio to determine whether there has been a material change in the total value of these properties. Management’s assessment of assets not revalued has identified no material change to the properties value.</p>	<ul style="list-style-type: none"> • We have assessed the Council’s valuer, Wilks Head & Eve LLP, to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings. • Wilks Head & Eve LLP were newly appointed for 2019-20 and we have considered the impact of changes in valuation methodology and judgements from the prior year to ensure they remain reasonable the movements are due to change in estimation he valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. 	

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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements

Accounting area

Auditor commentary

**Land and Buildings –
Other - £2,203m**

We have used Gerald Eve as our auditor expert to assess the valuer and assumptions made by the valuer – see table below for key aspects of the work completed and our responses:

Area of review	Gerald Eve comment	Audit team follow up	Assessment
Clarity of terms of engagement and instructions.	VPS 1, of the Red Book, requires any valuer to formally set out the scope of the instruction before the valuation is reported. This is a mandatory requirement of the RICS	We confirmed that the scope had been agreed with the valuer.	●
Is there a clear rationale/ approach provided to support the valuation methodology adopted for each asset category.	We are comfortable that the four classifications of valuation approaches have been set out in accordance with the Code. We are unable to consider the appropriateness of which valuation technique has been used to measure fair value (i.e. income or market comparable).	We confirmed the valuation technique applied for each asset with the valuer and it is considered appropriate.	●
Reasons for changes in assumptions or methodologies employed from prior periods.	The written report does not refer to any changes in assumptions or methodologies. As this is the first year of the instruction for the Valuer, changes in methodology may arise from a difference in valuation approach to the previous valuer.	We confirmed with the valuer the basis of their valuation assumptions and valuation methodologies. As this is the first year of this valuer in post the Council's capital team provided further analysis of the changes in assumptions and methodologies from prior year and we have used this to inform our understanding of the changes. We have tested those assets that have changed classification to ensure that the change in approach from last year is appropriate.	●
Confirmation that land values adopted in DRC valuations are satisfactorily evidenced.	Confirm that the valuer has undertaken market evidence research to ensure land values are kept up to date with market movements.	Our work includes review and challenge of evidence to support land values adopted for the sample of assets tested – no issues identified.	●
Confirmation that asset lifting estimates appear reasonable and in accordance with the detailed guidance.	Confirm whether the lives reported are: useful lives (subject to any assumptions agreed with the Authority), economic lives or design lives. Check if the Valuer has assessed remaining economic lives these are in accordance with section 9.19 "Remaining Economic Life" of the DRC Guidance Note.	We confirmed with the valuer that they apply useful lives across three components types and have no issues to report.	●
How has obsolescence been arrived at for DRC valuations?	Understand how the age and obsolescence has been calculate.	We reviewed the valuer judgement as part of our audit testing – no issues identified.	●

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment
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Net pension liability – £1,363m

The Council’s net pension liability at 31 March 2020 is £1,363m (PY £1,334m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return .Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £78.5m net actuarial gain during 2019/20.

Our assessment of the estimate has considered:

- Assessment of management’s expert
- Use of PwC as auditors expert to assess actuary and assumptions made by actuary

Assumption	Actuary Value	Assessment
Discount rate	2.35%	●
Pension increase rate	1.95%	●
Salary growth	2.95%	●
Mortality assumptions –longevity at 65 for current male pensioners (years)	21.8	●
Mortality assumptions –longevity at 65 for future male pensioners (years)	23.2	●
Mortality assumptions –longevity at 65 for current female pensioners (years)	23.7	●
Mortality assumptions –longevity at 65 for future female pensioners (years)	25.2	●

- Completeness and accuracy of the underlying information used to determine the estimate
- Assessment of the information received from pension fund auditor
- Reasonableness of the Council’s share of LPS pension assets.
- Reasonableness of increase/decrease in estimate
- Adequacy of disclosure of estimate in the financial statements



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Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

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

Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has included administration of grants to businesses, the closure of schools, building additional mortuary capacity, and staff re-deployment with additional challenges of reopening services under new government guidelines; staff absences due to being ill, the need to free up capacity of teams in addition to normal responsibilities. The Council is facing significant challenges.

Going concern commentary

Management's assessment process

Management's assessment process is based on your financial planning framework. You have a four year Medium Term Financial Plan (MTFP) for the period 2020/21 to 2023/24.

Auditor commentary

- The Council has a history of achieving financial savings plans and delivering services within budget
- The Council has a comprehensive medium term planning framework. The financial plan is updated annually.
- Management has concluded that it is appropriate to use the going concern basis of accounting.
- The Council has demonstrated that it has forecast the expected impact of loss of revenue and additional expenditure arising from the Covid-19 pandemic
- Management has determined that there are sufficient reserves at the end of March 2020 to cover the projected impact of Covid-19 in 2020-21 but is keeping this under regular review.

Work performed

- As at 31 March 2020 the draft accounts showed useable reserves of £393,027k.
- We have subjected the 2020/21 budget and cash flow forecast to detailed scrutiny and reviewed the planned savings proposals for 2020/21 and 2021/22 in our consideration of the appropriateness of management's use of the going concern assumption.
- We reviewed the revised budget presented to the September Council meeting

Concluding comments

We have not identified any material uncertainty about the Council's ability to continue as a going concern.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures].
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the property valuations, which is appended.
Confirmation requests from third parties	<p>We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. All but one of these requests have been returned to date with positive confirmation. We are in the process of following up the remaining confirmation.</p> <p>We requested from 3 schools permission to send confirmation requests to the school's banking. This permission was granted and the requests were sent. We are currently waiting for the responses from the external institutions.</p>
Disclosures	Our review found no material omissions in the financial statements other than in relation to the inclusion of a post balance sheet event in relation to Covid-19 impacts, additional disclosure in relation to the DSG reserves position and additional disclosures in relation to the group.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>We requested amendments to the Annual Governance Statement and will review the amended version on receipt.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work in this area will be completed in line with the national deadline.</p>
Certification of the closure of the audit	<p>We are unable to certify the closure of the 2019/20 audit of Kent County Council in the audit report, as detailed in Appendix E, until the work on the WGA consolidation pack is complete.</p>

Value for Money

Background to our VFM approach

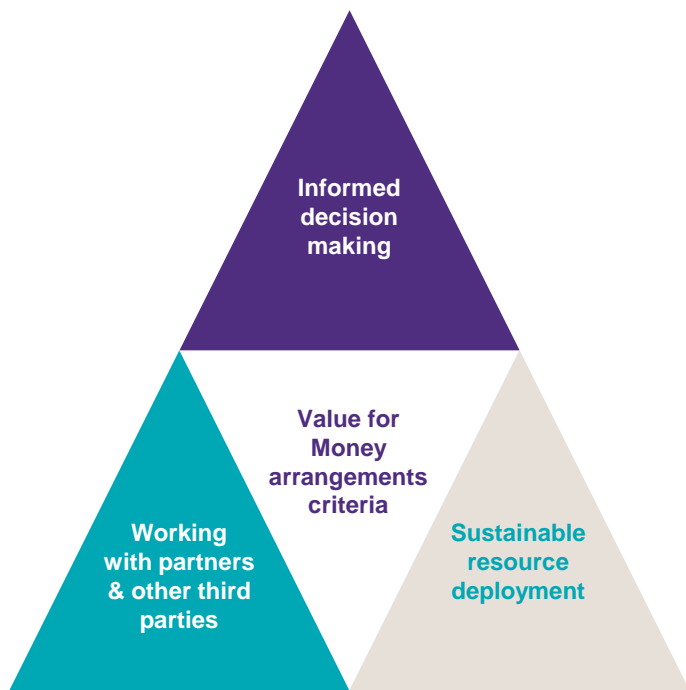
We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

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

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Risk assessment

We carried out an initial risk assessment in February / March 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated May 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's 2019/20 financial outturn;
- The robustness of the Council's 2020/21 budget and Medium Term Financial Strategy, including savings and income proposals; and
- The level and stability of the Council's usable reserves.
- The response of the Kent Pension Fund and Council as Administering Authority to the internal audit review resulting from the Woodford Equity Income Fund

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 22.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

However we have noted that the progress against the internal audit recommendations relating to the Kent Pension Fund governance processes have not progressed to the original timetable and a number remain in progress. We therefore intend to follow upon this risk in 2020/21.

The text of our report, which confirms this can be found at Appendix E.

The text of our proposed report can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p>Overall Financial Position – Medium Term Financial Plan</p> <p>You have a strong track record of delivering to your budgeted spend at the year end. However there is a requirement for a considerable level of savings of the life of the Medium Term Financial Plan (MTFP).</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> 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 discuss with management the expected impact of Covid-19 on the budget and measures that are being taken to mitigate the risk to provision of services 	<p>Revenue outturn for 2019/20</p> <p>In a year where March saw the outbreak of the Covid-19 pandemic, the Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but will be a larger impact on 2020/21.</p> <p>At end of March, the Council had an underspend against revenue budgets of £6.226m at year end but excluding schools and roll forward requests of £3.106m. The variance was primarily in the Children, Young People & Education directorate (overspend of 8.038m) and the Financing directorate (underspend of £11.174m).</p> <p>The capital budget was reporting a variance of -£150.288m (excluding devolved schools and PFI). This was partly due to variances in projects and partly due to re-phasing of projects. The largest variance was within the Growth, Environment and Transport directorate.</p> <p>Budget for 2020/21</p> <p>The Council approved the budget in February 2020 for 2020/21 which included the need to identify circa £30m of income generation and savings in the year. In the 2019/20 year you faced the following immediate challenges:</p> <ul style="list-style-type: none"> Increased spending pressures of circa £107m driven by changes in demography/increasing demand, inflation of pay and prices, replacement of one-off items in 2019-208-19 and other budget realignments. <p>We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2020/21. We looked at the assumptions behind these and concluded that they were realistically and prudently estimated but remain challenging.</p> <p>The Council’s reserves level provides it with a sufficient cushion to weather the on-going financial challenges that it faces over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, the Council only has finite reserves available and it is important that it continues to maintain appropriate budgetary controls. It has been noted that the deficit on the Dedicated Schools Grant (DSG) return has increased in 2019-20 and the Council has to monitor this and develop a plan to reduce the deficit.</p>

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Findings

Overall Financial Position – Medium Term Financial Plan Impact of Covid-19

As a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council has reviewed its 2020/21 budget and has been tracking costs and impact on income as well as considering the impact on reserves and capital programmes. The Council has been providing regular updates to MHCLG on costs and income pressures.

A revised budget was presented to the Council in September 2020. The budget was balanced but included amendments to reflect the additional cost pressures and underspends arising from the impact of the pandemic. This identified net pressures of £23.8m related to Covid-19, this included £96.3m of additional spending, delayed savings and loss of income offset by additional funding from central government of £75.3m. In addition to the additional pressure from Covid-19 the revised budget also identified a further £20.3m of non-Covid-19 overspends. Overall the analysis has concluded that there is a gross impact to the budget from Covid and non-Covid variances of £116.7m of which £75.3m is offset by additional funding leaving a balance of £36.3m which requires an increase in the 2020-21 budget. This will be funded by further government grants and other non-Covid grants already confirmed.

The Council is also experiencing additional pressures, both in costs and capacity, relating to unaccompanied asylum seekers.

The Council is now forecasting reserves of £212m at the end of 2020-21 after the drawdowns required in the revised budget. This comprises general fund reserves of £37m and earmarked reserves of £175m.

The Council will use the full range of options available, including (but not limited to) taking steps to reduce demand for services, implementing further efficiency savings, streamlining processes, and is reviewing the reserves it holds to identify any that could be redeployed as a one-off measure.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Findings

Woodford Equity Income Fund

Kent County Council is the administering authority for Kent Pension Fund which holds investments in the above fund. We will review the accounting for the movements on the investment in the fund, the management assessment of the year end valuation and any related disclosures.

We will discuss with management and the internal auditors the progress made against the Internal Audit recommendations.

We were provided with an update on progress against the internal audit recommendation by the Pension Fund management team. Whilst some of the recommendations have been completed there are a number where the date of completion has been delayed from the initial date of June 2020 to September 2020, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. The Pension Fund losses are estimated at circa £75m at this stage. We are of the view that the Pension Fund has responded well to the issues raised but believe its very important that all the recommendations from both Internal Audit reviews and other external reviews are implemented as soon as possible and that very strong steps are in place to prevent any recurrence of the events that led to the loss of the Pension Fund monies.

Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of future VFM reviews.

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

- We identified a recent potential self-interest threat in respect of a threat by a third party to make a complaint to the ICAEW about our audit of the financial statements of Invicta Law Limited for the year ended 31 March 2019, which we signed on 26 June 2019. The threat of making a complaint was received after the 2019 audit report of Invicta Law Limited was signed and no details of the complaints have been provided to us. Therefore we are satisfied that we were independent for the 2019 audit. Invicta Law Limited was not consolidated into the Kent County Council's accounts in 31 March 2019. The threat of a complaint, whilst not carried through at the date of this document, is considered to be present for the 2020 audit.
- In addition, as we expect to sign the audit reports of certain subsidiaries of Kent County Council for the year ended 31 March 2020 before the outcome of the ongoing tender of these audits is known, we have identified potential self interest and intimidation threats.
- We have appointed safeguarding partners onto the impacted audits of the subsidiaries of Kent County Council as a safeguard to mitigate against these self interest and intimidation threats.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Kent County Active Partnership accounts audit	2,750	Self-Interest (because this is a recurring fee)	<p>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 £2,750 in comparison to the total fee for the audit 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 all mitigate the perceived self-interest threat to an acceptable level.</p> <p>This service is not provided to the Council but to the Active Partnership which is hosted by the Council.</p>
Resolution of objections to prior years statutory accounts	13,000	Self interest Self review	<p>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 £11,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. The work we do on this and the level of 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.</p>

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.



	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights	24,000	Self-Interest (because this is a recurring fee)	<p>The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £24,000 in comparison to the total fee for the audit of £151,062 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.</p>




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These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.




Action plan

We have identified 5 recommendations for the group / Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.




Assessment	Issue and risk	Recommendations
<p style="text-align: center;"> Medium</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 177</p>	<p>In 2019-10 the Council has produced group accounts for the first time. The working papers provided to support this process were extensive and detailed and documented the process, sources of information and any judgements.</p> <p>However, discussing the group accounts consolidation process with management, and on review of the working papers, a number of areas where the processes could be improved for future year were identified.</p> <p>Without the information from counterparties which provide the appropriate level of detail, there is a risk that there will be significant unexplained differences between data. In addition without the level of detail in the returns to enable the expected disclosures in the group accounts there is a risk the group reporting will not be able to comply with the requirements of the accounting framework.</p>	<p>The returns required from consolidating bodies and schools should be reviewed to ensure they include the detail of the intragroup transactions to enable eliminations on consolidation to be matched in full and reduce the level of judgement in the process.</p> <p>Consider requesting returns with the income and expenditure data as at M9 or M10 to perform a matching exercise prior to year end to reduce the level of analysis required at year end.</p> <p>The returns should also be amended to ensure they include a request for a breakdown of balances / transactions for the specific areas where the amounts may require the disclosure in the group accounts such as income expenditure by nature.</p> <p>Management response</p> <p>This was the first year of preparing Group accounts, including prior year's accounts, during very difficult circumstances, including a ransomware attack on one of the companies. We will be doing a full review of the process, working closely with Holdco to ensure risks are mitigated and returns are produced as accurately and as timely as possible including the areas which require disclosure.</p>
<p style="text-align: center;"> Medium</p>	<p>During our bank testing we were made aware that the payments account was not reconciled in the period from September 2019 to July 2020 due to issues with the specialised software required for the process including failure of the single machine that had the software installed.</p> <p>The reconciliation was performed for the year end date in September 2020 and provided to the audit team. The reconciliation process identified items which had not been processed between bank accounts. The adjustments totalled £2.8m however these were between the payments account and the general account within the bank section so there is nil impact on the financial statements.</p> <p>If a regular reconciliation is not performed there is a risk that the bank movements are not appropriately recorded and in the case of the payments accounts there is the risk that unknown payments could be made and not identified to be investigated promptly.</p>	<p>We are aware that this issue has now been resolved however, the Council should ensure that specialised software for key processes is not restricted to one user and there is a contingency plan where the failure of such software would impact the Council's ability to perform key financial controls.</p> <p>Management response</p> <p>The software is now available to more than one user. The Payments Account is the only reconciliation which relied on a specific piece of software we are now aware that the software is not required to complete the Payment Account bank reconciliation so the key financial controls will be able to be met.</p>

Controls
 High – Significant effect on control system
 Medium – Effect on control system
 Low – Best practice


Action plan

Assessment	Issue and risk	Recommendations
<p> Medium</p>	<p>During our review of Property, plant and equipment our testing identified that amounts included in Assets under Construction had become operational in prior years. On investigation it was confirm this was due to project manager mis understanding the terminology used on the returns they are asked to complete by the capital team as part of the year end close down process and the different interpretations of the 'completion' of projects.</p> <p>The risk is that the assets remain in AUC when they have become operational and therefore are not appropriately depreciated or revalued.</p>	<p>The capital team should ensure that the project managers being asked to provide information regarding assets are aware of the accounting requirements for the classification of assets and when they are considered operational.</p> <p>The close down process should include challenge of any assets under construction that have been classified under this heading for more than one year to ensure they are being reclassified at the appropriate time.</p> <p>Management response</p> <p>This is undertaken each year but we will review our processes and ensure that this is explicit and will provide training where necessary.</p>
<p> Medium Page 178</p>	<p>During our review of creditors, our sample testing included an item in capital creditors which the capital team confirmed was not a valid creditor at year end. On further investigation it was confirmed that this was due to a number of duplicate purchase orders being included in the year- end creditor balance. This has been isolated to a specific area of the property function. The capital team undertook extensive work to identify the level of the issue to provide sufficient assurance that this was not a material issue</p> <p>However without sufficient controls and oversight of the procurement and purchase order process there is a risk that creditors will be overstated and there level of expected capital expenditure is not accurately reported.</p>	<p>The close down process should include review of the purchase orders and the teams involved in the process of receipting purchase orders in the iProcurement system should be trained to ensure they are able to identify duplicates before posting.</p> <p>Management response</p> <p>This is an isolated issue and there has been significant organisational change in this area since 1 April, however, we will ensure that appropriate training is provided to KCC staff and suppliers and that duplicate testing is undertaken at year end.</p>
<p> Medium</p>	<p>We identified the response to the internal audit report as part of our VFM risk.</p> <p>Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of future VFM reviews.</p>	<p>We will revisit this risk as part of future VFM reviews to review the actions taken in response the internal audit report recommendations.</p> <p>Management response</p> <p>Progress on implementing the actions recommended by Internal Audit has been impacted by Covid 19. However a number have been implemented and an external consultant appointed to undertake a review of the governance of the Fund and the finance resources allocated to the management and administration of the Fund. Internal Audit will do a follow up once this review is complete.</p>




Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
 Medium	<p>During our review of creditors we identified that not all account codes are regularly reconciled, in particular those with lower levels of transactions and where balances relating to specific creditors. This leads to the risk that balances are not held at an accurate level in the financial statements and there is a risk that transactions are not appropriately recorded.</p>	<p>The Council should review the balance sheet account codes and ensure that each has an 'owner' and a reconciliation is performed at regular intervals appropriate for the size and frequency of transactions for the code and should include a reconciliation process at year end.</p> <p>Management response</p> <p>Agreed. This piece of work commenced but has not been completed and needs constant review to manage staff changes. We will also be liaising with our external partners to ensure they understand their responsibilities in relation to account reconciliations.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
The client identified an adjustment was required after the production of the draft accounts to amend the debtor balance and cash. This has been processed in the revised accounts.			
DR Debtors		6,500	Nil impact
CR Bank		(6,500)	
During creditor testing it was identified that a month end journal for the transfer of bank payments against the creditor code had not been actioned. Further analysis identified that a similar issue impacted other balances resulting in an adjustment.			
DR Creditors		5,131	Nil impact
CR Debtors		(102)	
CR Bank		(5,029)	
Overall impact	£0	£0	£0

Audit adjustments

Misclassification and disclosure changes

The table below provides details of significant misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Adjusted?
Dedicated Schools Grant disclosure in Schools' reserve	Disclosure to include additional information to highlight to a reader of the accounts the inclusion of the DSG deficit within the earmarked schools reserve in order to ensure the offset is transparent	
Group	<p>This is the first year of production of the group accounts and we have made recommendations of a number of areas where additional disclosure are required including:</p> <ul style="list-style-type: none"> - Critical judgements - Notes for balances / transactions analysis where they differ materially to the Council's single entity accounts including expenditure analysis - Clarification of the disclosures relating to group structure and the basis of accounting 	
Prior period adjustment to reflect IFRS 15 reporting of agency arrangements	<ul style="list-style-type: none"> - The disclosure of income and expenditure under agency arrangements was amended in the 2018-19 figures to ensure they aligned with the treatment in 2019-20 and reflected the requirements of IFRS 15. 	

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Duplicate capital creditor invoices raised in 2019-20 due to an issue identified within a specific area of the business. The number of invoices raised by this section is £10m however the capital finance team have performed additional work following discussions with auditors and determined a potential error rate for specific projects with duplicate creditors at year end. Using this error rate they have assessed a potential overstatement of creditors of £6.8m. We have included this amount as the error but there is the potential for it to be higher to the maximum level of £9.1m.				
DR Creditors		6,832		
CR Assets under construction or operational assets		(6,832)		
The transfer between assets under construction and other categories of tangible assets were disclosed as additions and should be transfers or reclassifications. This impacted the Property, plant and equipment note only				
Dr disclosure of transfers / reclassification		23,047	Nil impact	Disclosure adjustment only with nil impact
Cr disclosure of additions		(23,047)		
Our review of the assets under construction identified that expenditure on assets which had changed to being operation in the prior years had not been reclassified in the balance sheet due. The impact is within the Property, plant and equipment note disclosure however there is an impact that depreciation should have been charged on the assets that were misclassified.				
DR Operational assets		3,649		
CR Assets under construction		(3,649)		
DR depreciation charge (estimated)	166		166	
CR Accumulated depreciation (estimated)		(166)		
Overall impact	£166	(£166)	(£166)	

Fees

We confirm below our final fees charged for the audit and provision of non-audit service.

Audit fees	Proposed fee	Final fee
Council Audit	151,062	151,062
Total audit fees (excluding VAT)	£151,062	£151,062

The audit fees agree to the financial statements.

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Non-audit fees for other services	Proposed fee	Final fee
Resolution of objections to prior years statutory accounts	13,000	13,000
CFO Insights	24,000	24,000
Total non- audit fees (excluding VAT)	£37,000	£37,000

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Provided separately

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Management letter of representation

Provided separately

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Independent auditor's report to the members of Kent County Council on the pension fund financial statements of Kent County Council Superannuation Fund

Opinion

We have audited the financial statements of Kent County Council Superannuation Fund (the 'pension fund') administered by Kent County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Corporate Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Corporate Director of Finance has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Corporate Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments and pooled property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, since the outbreak of COVID-19, as at the valuation date, valuers consider that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Our opinion is not modified in respect of this matter.

Other information

The Corporate Director of Finance's is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's and group's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Corporate Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities **set out on page(s) x to x**, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Corporate Director of Finance. The Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Corporate Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Kent County Council Governance and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London

[Date]



The Audit Findings for Kent Pension Fund

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Year ended 31 March 2020
29 September 2020



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Pension Investments team have all been working from home since the outbreak of the pandemic, however they have been able to continue with business as usual, as they have been able to access systems and complete meetings on-line.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit plan in July 2020. In that plan we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to deal with a number of audit challenges, including new remote access working arrangements i.e. remote accessing financial systems, video calling and remotely observing information produced by the entity. The audit has, and continues to be delivered remotely.</p>
Financial Statements Page 193	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work was completed on site/remotely during July-September. Our findings are summarised on pages 4 to 11. We have identified 1 adjustment to the financial statements that have resulted in a reclassification adjustment to the Pension Fund's reported financial position. The finance team amended the draft accounts for a valuation received after they were produced. Audit adjustments are detailed in Appendix A. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix B) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • receipt of management representation letter – see appendix C; • receipt and review of the final Annual Report; • completion of or review of derivatives; • completion of our internal review procedures; and • review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting property investments valuation material uncertainties.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the Pension Fund team and other staff during these unprecedented times.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

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

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Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; **and**
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

In our Audit Plan, we identified a financial statement risk relating to the Covid-19 pandemic are currently completing additional procedures to review how the Pension Fund has addressed the impact of this, it's working arrangements, and we have also considered the impacts on the year-end investment valuations. As part of our review we consider whether suitable disclosures have been prepared in relation to Covid-19.

Conclusion

Our work is substantially complete ongoing and there are no matters of which we are aware that would require material changes to the financial statements at present.

Our approach to 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.

Materiality levels have been updated from those reported in our audit plan as the planning materiality was based on prior year financial statements and we have updated these on receipt of the draft financial statements..

	Pension Fund Amount (£k)
Materiality for the financial statements	57,000
Performance materiality	39,900
Trivial matters	2,850

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	Covid-19	<p>Auditor commentary .</p> <p>We have:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 May 2020; evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; evaluated whether sufficient audit evidence could be obtained through remote technology; evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations ; evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. <p>There are no issues to bring to your attention. The accounts disclose a material valuation uncertainty in relation to property investments. We have considered in the significant risk for investments on page 6.</p>
2	The revenue cycle includes fraudulent transactions (rebutted)	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted. Therefore we do not consider this to be a significant risk for Kent Pension Fund.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
3	Management override of controls	<p>Auditor commentary</p> <p>We have undertaken work to:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals analyse the journals listing and determine the criteria for selecting high risk unusual journals test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	Valuation of Level 3 Investments (Annual revaluation)	<p data-bbox="561 278 795 314">Auditor commentary</p> <p data-bbox="561 321 665 349">We have:</p> <ul data-bbox="561 357 2005 742" style="list-style-type: none"> <li data-bbox="561 357 1313 385">• evaluated management's processes for valuing Level 3 investments <li data-bbox="561 392 1970 456">• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met <li data-bbox="561 464 1593 492">• independently requested year-end confirmations from investment managers and the custodian <li data-bbox="561 499 2005 621">• for all but one of the Level 3 investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and either agreed these to the fund manager reports at that date or used the March valuation and adjusted for transactions to reconcile to the audited accounts. No audited accounts were available for the LF Woodford Equity Income Fund (now renamed Link Equity Fund); <li data-bbox="561 628 1593 656">• evaluated the competence, capabilities and objectivity of the fund manager as valuation expert <li data-bbox="561 664 1839 692">• tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register <li data-bbox="561 699 1783 742">• where available reviewed investment manager service auditor report on design effectiveness of internal controls. <p data-bbox="561 749 1970 835">With regards the Woodford Equity Income Fund, we reviewed the accounting for movements in the investment and the year end valuation. We agreed the transactions and performed an evaluation of the fund manager as a management expert for the purposes of valuation.</p> <p data-bbox="561 842 2005 1049">We have considered the work being undertaken as a result of the internal audit report produced following the suspension of the fund in June 2019 and we were provided with an update on progress against the internal audit recommendations by the Pension Fund management team. Whilst some of the recommendations have been completed there are a number where the date of completion has been delayed, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. We will be following up on the outcome of this review as part of our 2020/21 audit.</p> <p data-bbox="561 1056 2005 1113">Addressing the recommendations of the Internal Audit Review , and any that follow the governance review are , in our view a key priority that needs to be addressed in 20/21 where appropriate.</p> <p data-bbox="561 1149 1120 1180">There are no further issues to bring to your attention.</p>

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
5	Valuation of Directly Held Property (Level 2 Investment) Annual valuation	<p>Auditor commentary</p> <p>We have undertaken work to:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and the custodian • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm or investment manager the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records <p>Our Findings</p> <p>The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. This also covers the same uncertainty in relation to the valuation of pooled property investments.</p> <p>The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.</p>

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Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Officers have a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.

Auditor commentary

- 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 Pension Fund's ability to continue as a going concern” (ISA (UK) 570).
- Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We have reviewed management's assessment of the going concern assumption and any material uncertainties, and evaluated the disclosures in the financial statements.

Work performed

Management have prepared the financial statements on a going concern basis.

Auditor commentary

- We have not identified any material uncertainty about the Fund's ability to continue as a going concern.


Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Level 3 investments	<p>The Pension Fund has investments in “hard to value” funds that in total are valued on the balance sheet as at 31 March 2020 at £231.45m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management, fund managers and the custodian use other means to assess the value, e.g. audited accounts. The value of the investments in this category has increased by £81.39m in 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> Relied on the fund manager as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; Compared latest audited accounts for investments, where available., and considered the level of amendments between the audited figures and valuations for the same period; Relied on the custodian as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; Tested the valuation by re-performing the basis of the valuation; and Reviewed any assumptions used in the calculation. <p>Our work has not identified any issues over the reasonableness of the valuations.</p>	●
Level 2 investment	<p>The Pension Fund have investments with observable inputs that are not quoted investments, that, in total, are valued on the balance sheet as at 31 March 2020 at £3,455.2659m.</p> <p>In order to determine the value, management, fund managers and the custodian use observable market data and other valuation techniques to assess their value. The value of the investments in this category has increased by £92.501m in 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> Relied on the custodian as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; Reviewed the bass of fund manager valuation where the custodian does not provide an independent valuation; Evaluated the competence, capabilities and objectivity of management’s valuation expert; Challenged the valuation of directly held property including the use of an auditor’s valuation expert Tested the valuation; and Reviewed any assumptions used in the calculation <p>Our work has not identified any issues over the reasonableness of the valuations however due to the level of uncertainty in the property market the Fund has disclosed a material valuation uncertainty in relation to pooled property investments and directly held property and we will highlight this as an Emphasis of Matter. See page 7 for more detail</p>	●





Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Actuarial Present Value of Promised Retirement Benefits	The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£3,377m) and the sensitivity of the estimate to changes in key assumptions.	<p>We have:</p> <ul style="list-style-type: none"> assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation; assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; tested the consistency of disclosures with the actuarial report from the actuary; and undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report. <p>Our work has not identified any issues over the reasonableness of the Actuarial Present Value of Promised Retirement Benefits.</p>	

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
-  We consider management’s process and key assumptions to be reasonable

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Fund, including specific representations in respect of the property valuations, which is appended.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests for bank balances. This permission was granted and the request was sent and returned with positive confirmation. We obtained confirmations from the custodian and fund managers where required, relating to control reports and investment balances.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. We are finalising this review to ensure they are fully compliant with accounting standards requirements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
8	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are reviewing the draft Pension Fund Annual Report. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

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Independence, ethics and fees

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 confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Details of fees charged are included below.


Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.




	Fees £	Threats identified	Safeguards
Audit related			
Pension Fund audit	37,037	None	N/A – no threats to our independence.
Non-audit related			
IAS 19 procedures for other bodies admitted to the pension fund	11,000	None	N/A – no threats to our independence. Audit fee is only a small percentage of the total audit fee.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

Action plan

Assessment	Issue and risk	Recommendations
 High	<p>Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of the 2020/21 audit.</p>	<p>We will revisit this risk as part of the 2020/21 audit to review the actions taken in response to the internal audit report recommendations.</p> <p>Management response</p> <p>Progress on implementing the actions recommended by Internal Audit has been impacted by Covid 19. However a number have been implemented and an external consultant appointed to undertake a review of the governance of the Fund and the finance resources allocated to the management and administration of the Fund. Internal Audit will do a follow up once this review is complete.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted unadjusted misstatements

There are no adjusted or unadjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2020. The client adjusted the accounts following receipt of the final valuation for one of the Level 3 investments.

Misclassification and disclosure changes

During the audit we requested that the derivative assets were reclassified to liabilities rather than included as a negative asset. There are no significant misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

Provided separately

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Management letter of representation

Provided separately

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[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
110 Bishopsgate
LONDON
EC2N 4AY

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Kent County Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Kent County Council and its subsidiary undertakings (Invicta law Limited, Kent HoldCo Limited, Cantium Business Limited, EDSECO Limited, GEN2 Property Limited, Kent County Trading Limited, Commercial Services Trading Limited, Commercial Services Kent Limited, Kent Top Temps Limited, Hampshire & Kent CS LLP, CES Holdings Limited, East Kent Opportunities Limited) the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and

properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

- vii. Except as disclosed in the group and Council financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the group and Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. The prior period adjustments are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.
- xvi. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity has been impacted in many sectors.
- xvii. As at the valuation date, our property valuers have stated that they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement. The Council's valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Valuation – Global Standards effective from 31 January 2020. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the phrase is used in order to be clear and transparent with all parties, in a professional manner that – in the current extraordinary circumstances – less certainty can be attached to the

valuation than would otherwise be the case. The material uncertainty clause is a disclosure, not a disclaimer.

Information Provided

- xviii. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xix. We have communicated to you all deficiencies in internal control of which management is aware.
- xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.
- xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Authority

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
110 Bishopsgate
London EC2N 4AY

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

Kent Pension Fund
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Kent Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.
- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Fund has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- x. The financial statements are free of material misstatements, including omissions.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii. We have updated our going concern assessment in light of the Covid-19 pandemic. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.
- xiv. The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries.

As a consequence economic activity is being impacted in many sectors. As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence, to inform opinions of value. Indeed, the current response to COVID 19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

The Fund's valuation for property and pooled property investment funds is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the Fund's property investments and illiquid assets than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, the valuers recommend that the Fund keeps the valuation of its properties under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuations cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuations than would otherwise be the case

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxiv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Fund's Governance and Audit Committee at its meeting on [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Fund

Audit Progress Report and Sector Update

Kent County Council
Year ending 31 March 2020

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Introduction



Paul Dossett

Engagement Lead

T 020 7728 3180

E paul.dossett@uk.gt.com

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

The paper also includes:

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

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Tina James

Engagement Manager

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

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 September 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January 2020. We began our work on your draft financial statements in July.

In March we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We have reported on our work in the Audit Findings Report presented to the October Committee. We aim to give our opinion on the Statement of Accounts in October 2020.

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

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We have reported on our work in the Audit Findings Report presented to the October Committee

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020.

Progress at September 2020 (Cont.)

Other areas

Meetings

We met with Finance Officers in September 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.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Governance and Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

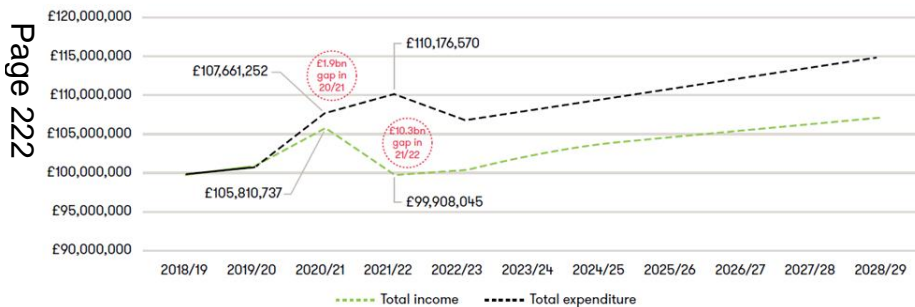
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part counterbalance the fall in demand elsewhere.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

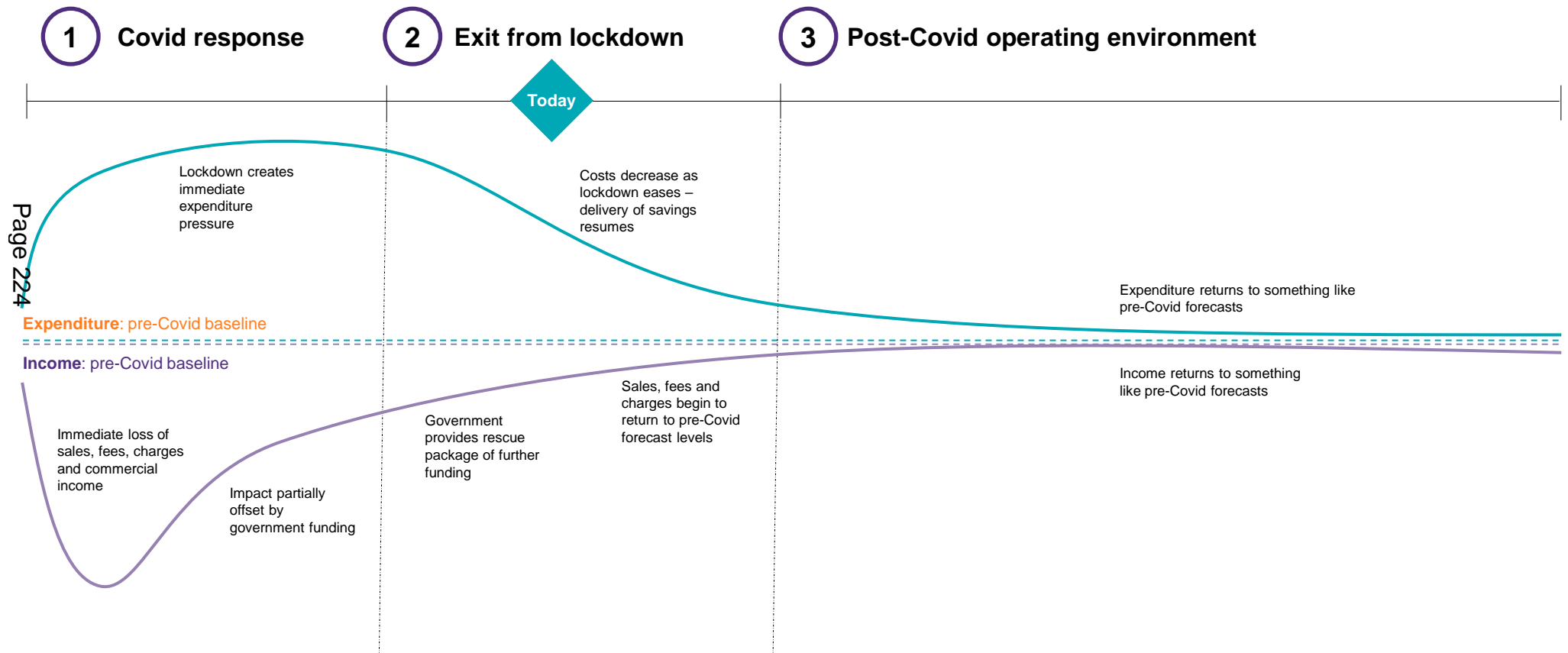
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

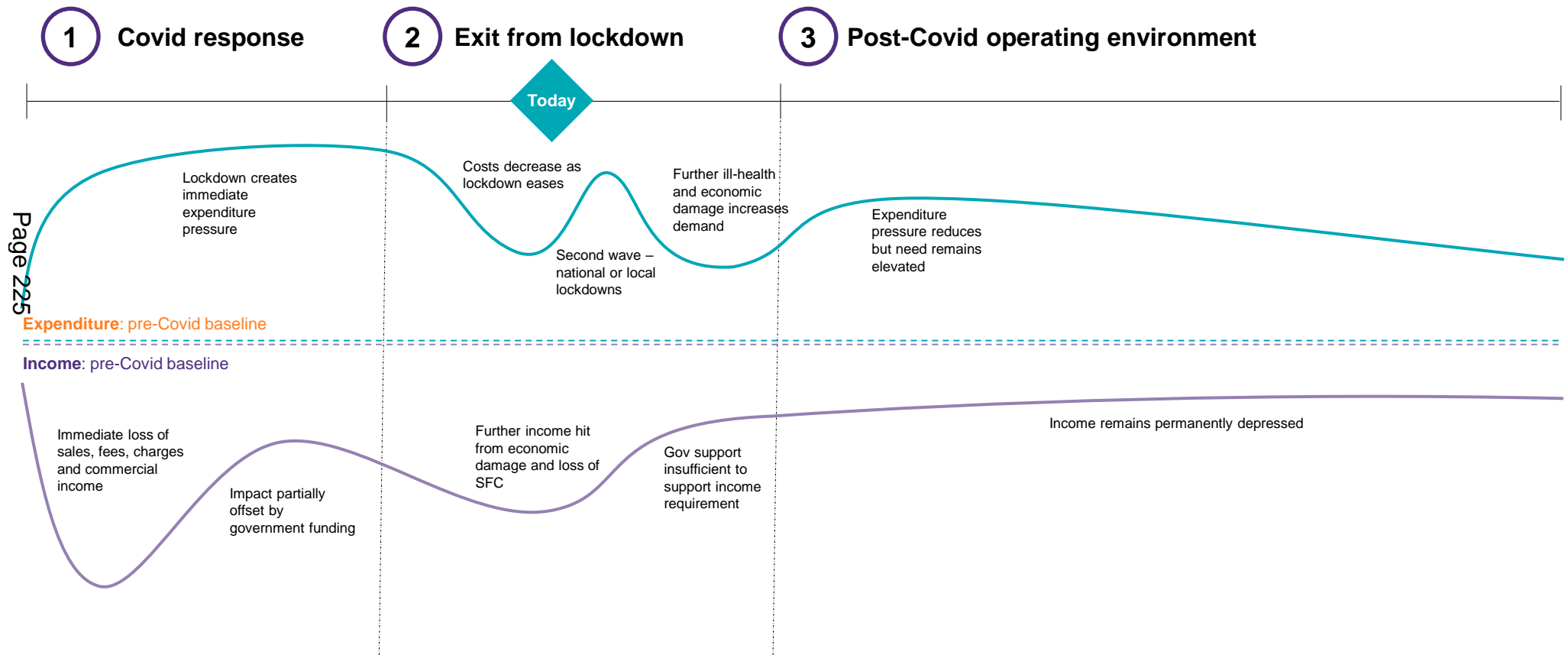
Example scenarios

Scenario 1 – swift return to normality



Example scenarios (Cont'd)







Scenario 2 – second wave and ongoing disruption



Scenarios and hypotheses

Local authority areas in 12-24 months?

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Theme	Reasonable worst case	Reasonable best case
People & community	 <ul style="list-style-type: none"> Multiple lockdowns and ongoing disruption Community dependency and expectation of sustained response Turbulence and activism within the VCS Socio-economic inequality is compounded Failure of leisure and cultural services 	<ul style="list-style-type: none"> Smooth exit from lockdown to a “new normal” Community mobilisation is channelled into ongoing resilience Strengthened VCS relationships and focus Systemic response to inequality is accelerated Leisure and cultural services adapted to social distancing
Business & economy	 <ul style="list-style-type: none"> 16% reduction in GVA for 2020 based on OBR reference scenario Slow / uneven economic recovery and “long tail” on unemployment Central gov / BEIS focus investment on areas furthest behind Loss of tourist & student spend causes unmitigated damage 'V' shaped recovery results in 2-3 year recovery period 	<ul style="list-style-type: none"> 5-10% reduction in GVA Rapid economic recovery with employment levels close behind Central government “back winners” with investment Adaptation allows resumption of tourist and student economy Business base is weighted towards growth sectors
Health & wellbeing	 <ul style="list-style-type: none"> Increased demand and escalating need due to fallout from lockdown Newly-vulnerable cohorts place strain on the system Unit costs increase further as markets deteriorate and providers fail SEND transport unable to adapt to social distancing Imposed disruption of care system 	<ul style="list-style-type: none"> Positive lifestyle changes and attitudes to care reduce demand Needs of newly vulnerable cohorts met through new service models New investment in prevention and market-shaping manage costs New ways of working leading to stronger staff retention Locally-led reform of health and care system
Political & regulatory	 <ul style="list-style-type: none"> Local government side-lined by a centralised national recovery effort Unfunded burdens (e.g. enforcement and contact-tracing) Councils in the firing line for mismanaging recovery 	<ul style="list-style-type: none"> Local government empowered as leaders of place-based recovery Devolution and empowerment of localities Councils at the forefront of civic and democratic renewal
Environment	 <ul style="list-style-type: none"> Opportunity missed to capture and sustain environmental benefits The end of the high street / town centres Emissions and air quality worsened by avoidance of public transport Capital programmes stuck 	<ul style="list-style-type: none"> Ability to invest in transport modal shift and green infrastructure Changed working patterns rejuvenate town centres Sustained impact on emissions due to new behaviours New, shovel-ready infrastructure programmes
Organisational	 <ul style="list-style-type: none"> Inadequate funding forces fiscal constraint Working practices return to status quo – increased operating costs Imposed structural change within the place Austerity 2 Commercial portfolio becomes a liability 	<ul style="list-style-type: none"> Adequate funding enables a programme of targeted investment Learning and adaptation to new operating environment Energised system-wide collaboration and reform Fiscal reform and civic renewal Commercial portfolio reshaped for economic and social gain

What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate

Learning from the response to lock in the good stuff – reflection on operations, services and the system

- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete; presented to July Committee
<p>Audit Findings Report</p> <p>The Audit Findings Report was initially planned to be presented to the July Governance and Audit Committee and was amended to October Committee due to the impact of Covid-19 on audit and accounts timings.</p>	October 2020	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	October 2020	In progress
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	January 2020	Not yet due

Sector Update

Councils continue to try 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 sector 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 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

In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-on-financial-reporting-local-government-sector.pdf>



Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

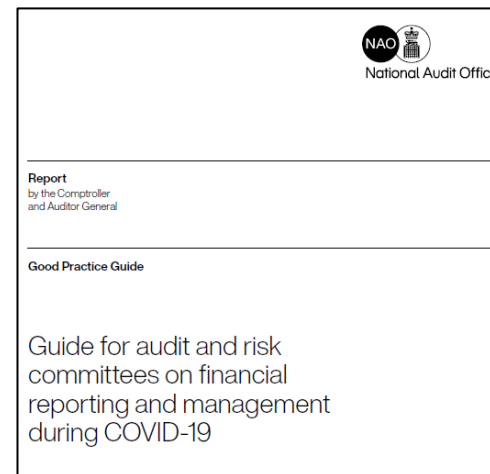
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.

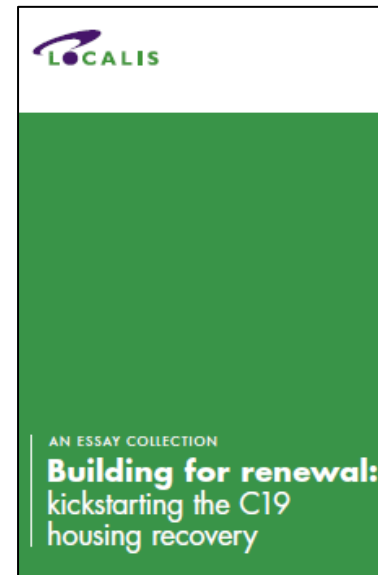
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

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The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

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Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

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Local Government audit and financial reporting – the Redmond Review

Grant Thornton
September 2020



The Redmond Review – scope and purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

Context

Why the need for a review?

- Local audit is facing an unprecedented set of challenges
 - Accounts have grown far more complex
 - Authorities are engaging in more innovative / unusual transactions
 - Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
 - Audit fees have fallen to an unsustainably low level
 - The sign off date of 31 July is too tight (even without Covid 19 pressures)
 - Retention of audit staff is very difficult in this environment
 - Authorities are not getting the service they deserve
 - Radical and urgent reform is needed!

Areas of focus

A wide ranging review

- The Expectations Gap
 - Audit and Wider Assurance
 - Audit Quality
 - The Financial Reporting framework
 - Auditor Reporting
-
- 156 responses
 - Over 100 interviews
 - 83 pages
 - 23 recommendations



The system is not working



The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Covering letter to the Secretary of State

- The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.
- With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations.
- In addition, the ambition of attracting new audit firms to the local authority market has not been realised.

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman)
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Detailed findings

Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors including other parts of the public sector have significantly risen
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

Detailed findings

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff

Detailed findings

Financial reporting is overly complex / not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting e.g:
 - asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value
 - going concern disclosures are perceived to be less relevant in a local authority context than financial resilience

Detailed findings

Governance and transparency of reporting needs improvement

- The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

Detailed findings

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves, Auditors coming through the system are not developing a wider understanding of LG context
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/ LASAAC

Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

Sir Tony's Recommendations

A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries.**

Where next?

A call for action

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation

Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.



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

To: Governance and Audit Committee – 8 October 2020

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

Classification: Unrestricted

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

FOR ASSURANCE

1 INTRODUCTION

- 1.1 As per its Terms of Reference, the Governance and Audit Committee has a responsibility each year to 'Receive and review the annual statutory financial accounts of any KCC limited companies and financial statements for other trading vehicles and to consider corrective action where appropriate'.
- 1.2 The link to the latest Statutory Accounts for these companies (for 2018-19) 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 2018-19. The accounts for each of the companies have been prepared on a going concern basis and give no cause for concern. Locate in Kent is the only company which has raised a potential issue over longer term viability.

1. Aylesham & District Community Workshop Trust Ltd	
Purpose of entity	Established for the benefit of persons in the Aylesham and Rural District to provide or assist in the provision of facilities for the advancement of education and for recreation and leisure-time occupation with the objective of improving the conditions of life of said persons. Company Limited by Guarantee and a Charitable Trust.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. There are 9 Trustees. Liability will not exceed £10.
Directors on the Board	Mr S Manion – KCC Member
Profit or Surplus / (Deficit)	£9,389 – accounts as at 31 March 2019
Payment during 2019-20	£5,761 (excluding VAT) – room hire and training event costs.
2. Visit Kent Ltd	
Purpose of entity	To promote, market, advertise and develop nationally and internationally the tourist industry in the county of Kent and all the bodies, entities, persons associated and involved therein. Company Limited by Guarantee.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. Liability is limited to £1.
Directors on the Board	Mr M Dance – KCC Member resigned 5 November 2019 Mr J McInroy – KCC Member appointed 3 February

	<p>2020</p> <p>Mr D Hughes – KCC Officer resigned 15 May 2020</p> <p>KCC is entitled to two Board members so will have the opportunity to replace Mr Hughes..</p>
Profit or Surplus / (Deficit)	£12,268 – accounts as at 31 March 2019
Payment during 2019-20	£365,018 (excluding VAT) – Annual contract and match funding towards EXPERIENCE project. The annual contract is to help attract visitors to Kent and create job opportunities.
3. Locate in Kent Ltd	
Purpose of entity	<p>Locate in Kent offers confidential and free business investment and relocation services to international, UK and Kent-based companies looking to expand.</p> <p>Company Limited by Guarantee.</p>
Level and Nature of Interest	<p>KCC is a Member. Each Member has one vote.</p> <p>Liability is limited to £1.</p>
Directors on the Board	<p>Mr M Dance – KCC Member resigned 1 January 2020</p> <p>Mr J McInroy – KCC Member appointed 13 January 2020</p>
Profit or Surplus / (Deficit)	£187,636 – accounts as at 31 March 2019
Payment during 2019-20	£810,687 (excluding VAT) – EU Funded: Inward Investment Contract

4. Trading Standards South East Ltd	
Purpose of entity	To provide advice to consumers in the south east of England. Company Limited by Guarantee.
Level and Nature of Interest	KCC is a Member. Each Member has one vote. Liability is limited to £1.
Directors on the Board	Mrs S Harvey – KCC Officer resigned 8 October 2019 Mr M Norfolk – KCC Officer appointed 8 October 2019
Profit or Surplus / (Deficit)	(£37,437) – accounts as at 31 March 2019
Payment during 2019-20	£2,620 (excluding VAT) – Training fees.
5. East Kent Spatial Development Company	
Purpose of entity	A regeneration company specialising in the provision of utilities infrastructure to the business parks in East Kent. Company Limited by Guarantee.
Level and Nature of Interest	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.
Directors on the Board	Mr M Dance – KCC Member resigned 18 February 2020 Mr M Whiting – KCC Member appointed 18 February 202
Profit or Surplus / (Deficit)	£424,011 – accounts as at 31 March 2019
Payment during 2019-20	Nil

6. Produced in Kent	
Purpose of entity	To increase the public's awareness of produce which has been produced in Kent. Company Limited by Guarantee.
Level and Nature of Interest	KCC has joint voting rights with Hadlow College. Liability is limited to £1.
Directors on the Board	Mr S Holden – KCC Member resigned 9 December 2019 Mr J McInroy – KCC Member appointed 13 January 2020
Profit or Surplus / (Deficit)	(£10,345) – accounts as at 31 March 2019
Payment during 2019-20	£90,475 (excluding VAT) – contribution towards salary costs and EU funded: Taste of Kent Awards 2020.
7. TRICS Consortium Ltd	
Purpose of entity	Consortium of six County Councils owning and operating a transport trip rate database known as TRICS. Company Limited by Shares
Level and Nature of Interest	37,500 shares of total share capital of 225,000 (16.7% holding). One of six members with equal voting rights (one vote per member) Received a dividend £90,291.10 in 2019-20.
Directors on the Board	Mr M Hogben – KCC Officer
Profit or Surplus / (Deficit)	£633,456 – accounts as at 31 December 2019
Payment during 2019-20	£3,450 (excluding VAT) – Annual Licence

8. Kent PFI Holding Company 1 Ltd	
Purpose of entity	Kent PFI Holding Company 1 Ltd is a holding company for Kent PFI Company 1 Limited, a company whose activities include the provision of construction and maintenance services for three secondary schools for pupils across Kent;Thamesview School, Northfleet Technical College and St Johns Catholic Comprehensive School.
Level and Nature of Interest	As part of the Treasury Strategy to make investments in equity up to the value of £5m, KCC purchased shares in Kent PFI Holding Company 1 Ltd. At the end of 2014-15 KCC has 42% holding in the company. The investment structure is as follows: <ul style="list-style-type: none"> • £2,681,260.21 in loan notes • £2,113,808.91 in shares During 2019-20 KCC received £514,061.74 relating to dividends, interest and repayment of loan notes.
Directors on the Board	Mrs J Lee – KCC Officer Ms J Hansen – KCC Officer
Profit or Surplus / (Deficit)	£273,000 – accounts as at 31 March 2019
Payment during 2019-20	£10,800,814 (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

From: Mike Whiting
Cabinet Member for Economic Development

To: Governance and Audit Committee

Date: 8 October 2020

Subject: Regional Growth Fund, Discovery Park Technology Investment Fund & Kent Life Sciences Fund

Classification: Unrestricted

Summary and Recommendation

This report provides an update and summary of the RGF equity investments made by KCC since the RGF programmes were launched in April 2012.

The Committee is invited to note the report.

1. Background

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 RGF schemes provided funding for loans, equity investments and grants to support businesses with investment plans leading to job creation and growth. When the Department for Business allocated RGF funding to KCC for businesses in East Kent in 2012, business support was generally in the form of grants with State Aid rules governing the maximum grant permitted in each case. KCC's decisions on which businesses should be supported were guided by a detailed appraisal of applications for funding from an Investment Advisory Board whose membership consisted of experienced businessmen and women from across the County. It was concluded early on that it would be more appropriate to provide the RGF support through loans and equity rather than grants. For most businesses, loan finance was provided at 0% interest, with a repayment period of between 5 and 7 years. To encourage repayment, appropriate security was taken against each loan. When the loans were repaid, those funds could be recycled to other borrowers. For some businesses, particularly those with few tangible assets but significant prospects for growth, equity finance was considered more appropriate.

- 1.3 From 2016/17, KCC used the recycled RGF loan repayments to enable the Kent and Medway Business Fund (KMBF) to provide further loans and equity investments ranging between £50,000-£500,000 to eligible businesses across Kent and Medway. The recycled RGF loan repayments were also used to finance the Kent Life Sciences Fund (KLS), a sub-programme of the KMBF scheme.
- 1.4 RGF funds can only be used in accordance with the Government's contract for support for business: they cannot be applied to other KCC uses.

2. The three RGF equity funds: summary

- 2.1 KCC has managed three equity programmes funded from the Regional Growth Fund.

KCC RGF Bespoke Equity Fund (KRBEF)

£3.8 million has been invested in the unlisted equity of 11 companies located across Kent. These investments were funded from the Expansion East Kent, Tiger and Escalate RGF programmes. £140k has been returned to KCC following a sale of shares but two companies are in administration and a further company is dormant. The shareholding in the 8 remaining companies in the portfolio was valued at £1.7 million as at 31 March 2020.

Discovery Park Technology Investment Fund (DPTI)

£5.1m investment has been made in the unlisted equity of 8 companies located in Discovery Park in East Kent. These investments were funded from the Expansion East Kent programme. One company has failed and the investment of £0.6 million has been written off. The shareholding in the 7 remaining companies in the fund was valued at £7.5 million as at 31 March 2020.

Kent Life Science Fund (KLS)

To date KCC has invested £2.3m in the unlisted equity of 6 companies via the Kent Life Science Fund. These investments are funded from the Kent and Medway Business Fund. All six companies are still trading and the shareholding in these companies in the portfolio was valued at £2.5 million as at 31 March 2020.

3. KCC RGF Bespoke Equity Fund (KRBEF): detail

- 3.1 Shares were purchased to the value of £3,763,072 in 11 companies which were early stage businesses, pre-profit and in many cases pre-revenue at the time of the investment. This portfolio consists of high-risk investments in companies judged to have very strong potential to bring significant economic benefit to Kent.

3.2 The KRBEF's mandate is:

- KCC will only make an investment in the company alongside other private sector investors investing *pari passu*.
- 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'.

3.3 NCL Technology Ventures (NCL) Ltd has been appointed to manage, monitor and oversee these investments.

3.4 NCL reports quarterly to the RGF Investment Advisory Board which is chaired by a KCC Member and a majority of its members are drawn from the private sector.

3.5 The companies in which KCC has invested present on an annual basis an update on their performance to the Investment Advisory Board.

3.6 The focus of the portfolio is on companies with a strong potential for growth and economic impact in Kent alongside a high return on investment. Private sector investment is required on the same terms as the RGF equity is purchased to meet state aid legislation. The exit strategy is to obtain an acceptable value for the original investment.

3.7 Companies in which the KRBEF has invested can also obtain RGF loans at 0% interest. Two companies in the portfolio have repaid these loans in full.

3.8 There has been one successful exit: KCC accrued £140,000 while retaining shares to an equivalent value in the company which bought the company in which KCC originally invested. The shareholding in the 8 remaining companies in the portfolio was valued at £1,749,707 as at 31 March 2020.

4. **Discovery Park Technology Investment Fund (DPTI): detail**

4.1 The Discovery Park Technology Investment Fund (DPTI) was launched in January 2015 to attract companies to locate at Discovery Park and sites in East Kent.

4.2 NCL was mandated to carry out detailed analysis of each potential company including management structure, financial position and technical analysis of the product. A full report with NCL's recommendations is presented to the RGF Investment Advisory Board (IAB) by NCL. Representatives from those

companies are invited to present their proposals to the IAB once the due diligence investigations have been completed.

- 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 The mandate for the DPTI is:
- KCC will only permit an investment if there are other private sector investors investing *pari passu*.
 - 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.
- 4.5 £5,101,713 has been invested in 8 companies in the DPTIF portfolio. An exit strategy has been prepared for each investment and varies from three to ten years. One company has subsequently gone into administration. The shareholding in the 7 remaining companies in the fund was valued at £7,450,397 as at 31 March 2020.

5. Kent Life Science Fund (KLS)

- 5.1 Kent Life Science Fund (KLS) was launched in 2017 to attract companies in the life sciences sector to locate in Kent.
- 5.2 NCL was mandated to carry out detailed analysis of each potential company including management structure, financial position and technical analysis of the product. A full report with NCL's recommendations is presented to the RGF Investment Advisory Board (IAB) by NCL. Representatives from those companies are invited to present their proposals to the IAB once the due diligence investigations have been completed.
- 5.3 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.

5.4 The mandate for KLS is:

- KCC will only permit an investment if there are other private sector investors investing *pari passu*.
- 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 or seeking to relocate in Kent.

5.5 £2,325,000 has been invested in six companies in the KLSF portfolio. An exit strategy has been prepared for each investment and varies from three to ten years. All six companies are still trading and the shareholding in these companies in the portfolio was valued at £2,527,974 as at 31 March 2020.

6. **Conclusion**

- All three equity programmes are still in their early stages and it is anticipated that some of the investments will not show a positive return on investment for another 3 to 5 years.
- The exit strategy is different for each investment.
- There are early signs of increased value of shareholdings in some of the investments. However, the short to medium term impact on investments caused by the Covid-19 pandemic is unclear.
- The Investment Advisory Board receives quarterly reports on the performance of all the companies and an independent valuation from NCL.
- The independent valuation of the RGF investments in the three funds as at 31 March 2020 show a net increase in value of £678,293 above the original cost of the investments. It should be noted that the value of these investments could rise or fall in future, but all of them have already had a significant impact on the economy of Kent.

7. Recommendation

The Committee is invited to note the report.

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