

## **GOVERNANCE AND AUDIT COMMITTEE**

**Wednesday, 27th April, 2022**

**10.00 am**

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

**There will be a presentation for Members of the Committee by CIPFA on emerging themes from the review of the Committee's effectiveness following the meeting.**









## AGENDA

### GOVERNANCE AND AUDIT COMMITTEE

**Wednesday, 27th April, 2022, at 10.00 am**  
**Council Chamber, Sessions House, County**  
**Hall, Maidstone**

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

#### **Membership (12)**

Conservative (7)	Mrs R Binks (Chairman), Mr N J D Chard, Mr D Jeffrey, Mr H Rayner, Mr R J Thomas, Mr S Webb and Vacancy
Labour (1)	Mr A Brady
Liberal Democrat (1):	Mr A J Hook
Green and Independent (1)	Mr M A J Hood
Independent Member (1)	Dr D A Horne

#### **Webcasting Notice**

Please note: this meeting may be filmed for live or subsequent broadcast via the Council's internet site or by any member of the public or press present. The Chairman will confirm if all or part of the meeting is to be filmed by the Council.

By entering the meeting room you are consenting to being filmed. If you do not wish to have your image captured please let the Clerk know immediately.

#### **UNRESTRICTED ITEMS**

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

1. Introduction/Webcasting
2. Substitutes

3. Declarations of Interest in items on the agenda for this meeting
4. Minutes - 25 January 2022 (Pages 1 - 8)
5. Annual Governance Statement (Pages 9 - 10)
6. Schools Audit Annual Report (Pages 11 - 14)
7. Treasury Management Quarterly Update 2021-22 (Pages 15 - 34)
8. Revised Accounting Policies and audit timetable (Pages 35 - 36)
9. External Audit Annual Report on KCC (Pages 37 - 80)
10. External Audit Progress Report and Sector Update (Pages 81 - 110)
11. External Audit Plan for Kent Pension Fund (Pages 111 - 130)
12. Audit Risk Assessment (Pages 131 - 166)
13. Kent Pension Fund Audit Risk Assessment (Pages 167 - 196)
14. Internal Audit Progress Report (Pages 197 - 244)
15. Internal Audit Plan 2022/23 (Pages 245 - 266)
16. Counter Fraud Update (Pages 267 - 276)
17. SEND Transport Review Terms of Reference- Oral Update
18. Other items which the Chairman decides are urgent
19. Motion to exclude the public

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

### **EXEMPT ITEMS**

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

20. Equity Schemes funded by the Regional Growth Fund - KCC RGF Bespoke Equity Fund (KRBEF), Discovery Park Technology Investment Fund (DPTI) and the Kent Life Science Fund (KLS) (Pages 277 - 298)
21. Internal Audit Update on ICT01-2022 - Cyber Security Assurance Map (Pages 299 - 302)

Benjamin Watts  
General Counsel  
03000 416814

**Tuesday, 19 April 2022**

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

## KENT COUNTY COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Tuesday, 25 January 2022.

PRESENT: Mrs R Binks (Chairman), Mr R A Marsh (Vice-Chairman), Mr A J Hook, Dr D Horne, Mr M A J Hood, Mr D Jeffrey, Mr H Rayner, Dr L Sullivan (Substitute for Mr A Brady), Mr R J Thomas and Mr S Webb

ALSO PRESENT: Mr R W Gough, Mr D Murphy, Mr P J Oakford, Mrs L Parfitt-Reid, Mrs S Prendergast and Mr Paul Dossett

IN ATTENDANCE: Mr B Watts (General Counsel), Ms Z Cooke (Corporate Director of Finance), Mr J Idle (Head of Internal Audit), Mr M Scrivener (Corporate Risk Manager), Mrs A Mings (Treasury and Investments Manager, and Acting Business Partner for the Kent Pension Fund), Mrs C Head (Head of Finance Operations), Ms A Melvin (Commercial Accounting Manager), Mr J Flannery (Principal Auditor), Ms F Smith (Audit Manager), Mr R Smith (Principal Auditor), Mr I Watts (Area Education Officer – North Kent), Mr D Smith (Director of Economic Development), Mr M Hyland (Project Co-ordinator – Kings Hill), Mr M Riley (Economic Development Officer (Expansion East Kent Programme)) and Mr A Tait (Democratic Services Officer)

### UNRESTRICTED ITEMS

**1. Minutes - 30 November 2021**  
(Item 4)

RESOLVED that the Minutes of the meeting held on 30 November 2021 are correctly recorded and that they be signed by the Chairman.

**2. Declarations of Interest**  
(Item )

Mr S Webb informed the Committee that he was in receipt of a KCC Pension and would therefore not participate in any discussion that involved the Superannuation Fund.

**3. Review of KCC's Risk Management Policy, Strategy and Programme**  
(Item 5)

(1) The Leader of the Council and the Corporate Risk Manager introduced the report which set out the annual review of the Council's Risk Management Policy, Strategy and Programme.

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

#### **4. Corporate Risk Register**

*(Item 6)*

(1) The Leader of the Council and the Corporate Risk Manager introduced the report on the Corporate Risk Register.

(2) During discussion of this item, the following points were discussed:

- Whether the risks of a rise in interest and inflation rates might be under-assessed and that these could additionally be impacted by the increase in refugees from global trouble spots.
- During discussion of Risk CRR0044, the Monitoring Officer suggested that future Minutes on the Corporate Risk Register should include post-meeting addenda specifying the actions taken in response to Members' comments.
- In respect of Risks CRR 0044 and 0047 Committee Members requested on the estimated figures for High Needs Funding for Independent and KCC-provided support. This followed discussion of concerns on the ability of KCC to fund its SEND commitments, particularly in the light of the current uncertainty over the DFE override ending in March 2023.

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

#### **5. Treasury Management Update**

*(Item 7)*

(1) The Acting Business Partner – Kent Pension Fund introduced a review of Treasury Management Activity up to the end of November 2021 together with developments in 2021-22 up to the date of her report.

(2) Members of the Committee expressed concern over loans being made to other local authorities and investment in Government Bonds. The Acting Business Partner – Kent Pension Fund provided assurance that no further such loans had been made since the previous meeting of the Committee and that the County Council's Treasury Management strategy followed a strong diversification policy.

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

#### **6. External Audit Progress Report and Sector Update**

*(Item 8)*

(1) Mr Paul Dossett from Grant Thornton UK LLP introduced the report on current progress on external audit work. He replied to questions on the training of



the next generation of auditors and provided assurance on the separation of the audits of KCC and the Regional Development Fund which avoided any suggestion of a conflict of interest.

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

## **7. Internal Audit Progress Report**

*(Item 9)*

(1) The Head of Internal Audit introduced the report which provided detailed summaries of completed Audit reports for the period November to December 2021.

(2) Mr R Smith, Corporate Director of Adult Social Care and Health attended virtually for this item.

(3) The General Counsel updated the Committee on actions taken in respect of the Records Management Audit which had been reported to the previous meeting of the Committee and had received a limited Audit Opinion.

(4) The Committee agreed to record its concerns over the lack of implementation of Internal Audit actions within Adult Social Care and Health.

(5) RESOLVED that:-

(a) the report be noted for assurance; and

(b) the Committee's concerns over the lack of implementation of Internal Audit actions within Adult Social Care and Health be recorded.

## **8. Counter-Fraud Update**

*(Item 10)*

(1) The Counter Fraud Manager introduced the report on the Counter Fraud activity undertaken for the period April 2021 to December 2021, including reported fraud and irregularities. This report also contained an update on the Counter Fraud Action Plan for in 2021/22 covering reactive and proactive activity.

(2) During discussion of this item, the Committee agreed to defer any consideration of the issue of cyber security in schools until the Exempt part of the agenda owing to the sensitive and confidential nature of the information that the Counter Fraud Manager would need to provide.

(3) The Committee recorded its thanks to Mr Duncan Warmington for his work on Counter Fraud and conveyed its best wishes on his retirement.

(3) RESOLVED that:-

(a) the report be noted for assurance;

- (b) Mr Duncan Warmington be thanked for his distinguished work in the field of Counter Fraud.

## **9. Governance and Audit Committee Effectiveness - Training and Development Programme**

*(Item 11)*

- (1) The Corporate Director of Finance and the General Counsel reported on the proposal from CIPFA to review the Governance and Audit Committee as part of a programme of support.
- (2) The Committee welcomed the proposal and asked that its positive view be recorded.
- (3) RESOLVED that:-
  - (a) the proposal and draft brief contained in the Appendix to the report be endorsed as a positive contribution to the work of the Committee;
  - (b) approval be given to the commissioning of CIPFA to conduct a review of the Governance and Audit Committee;
  - (c) arrangements for delivery and reporting of the review be delegated to the Chief Officers who service the Committee; and
  - (d) the outcomes of the review be considered as part of the Committee's annual review of its effectiveness.

## **10. Updated Financial Regulations**

*(Item 12)*

- (1) The Head of Finance Operations introduced the report which summarised the updated financial regulations. She explained that, whilst amendments had been made to reflect changes in structures and working practices, there had been no significant changes.
- (2) RESOLVED that the updated Financial Regulations, including the delegated authority be recommended to the County Council for approval.

## **11. Performance of KCC wholly owned companies**

*(Item 13)*

- (1) The Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services and the Commercial Accounting Manager introduced the report which presented the performance of KCC's wholly owned companies for the financial years 2019/20 and 2020/21.

(2) The Director of Economic Development informed the Committee that the arrangements for the LATCOs were currently under review and the General Counsel assured the Committee that its Members would receive regular updates on progress.

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

## **12. Statutory Accounts for those Companies in which KCC has an interest.**

*(Item 14)*

(1) Mr R J Thomas informed the Committee that he was a member of the Board of the East Kent Spatial Development Company and that he would not participate in any discussion of that company.

(2) The Commercial Accounting Manager introduced the latest available Statutory Accounts for those companies in which KCC has an interest.

(3) In response to Members' questions, the General Counsel said that appointments to the Boards of these companies should be reported to Selection and Member Services Committee.

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

## **13. Code of Corporate Governance**

*(Item 15)*

(1) The General Counsel presented the latest draft of the Code of Corporate Governance.

(2) RESOLVED that the County Council be recommended to approve the draft Code of Corporate Governance and that section 26 of the Constitution be amended accordingly.

## **14. Policy Review**

*(Item 16)*

(1) The Counter Fraud Manager introduced updates to the Anti-Money Laundering Policy; the Anti-Bribery Policy; the Anti-Fraud and Corruption Strategy; and the Whistleblowing Strategy – Internal and External.

(2) RESOLVED that approval be given to the policies set out in (1) above.

**EXEMPT ITEMS**  
**(Open access to Minutes)**

*The Committee 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.*

**15. Internal Audit Progress Reports**

*(Item 19)*

(1) The Head of Internal Audit introduced the report on audits carried out on ASCH Day Care Centre Review; the Schools Themed Review – Cyber Security; Imprest Accounts – Follow up; ICT Management of Backups for Applications, Data and Active Network Devices; and the Sessions House Data Centre Failure.

(2) Mrs S Prendergast attended for this item in her capacity as Cabinet Member for Education and Skills.

(3) Mrs S Chandler attended virtually as Cabinet Member for Integrated Children's Services. Mrs R Spore, Director of Infrastructure attended virtually.

(4) Assurances were provided as to the actions taken or to be taken in relation to the five specific reports. It was noted, however, that the implementation of some actions had slipped.

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

**16. Equity Schemes funded by the Regional Growth Fund**

*(Item 20)*

(1) The Programme Manager, Growth Communities and Environment provided detailed, commercially sensitive information on the status and valuations of the Regional Growth Fund (RGF) equity investments as of 31 March 2021 made by KCC since the RGF programmes were launched in April 2012.

(2) In noting the report, the Committee asked for updated information to be provided at its next meeting.

(3) RESOLVED that the report and the commercially sensitive appendices be noted for assurance and that a further update report containing the latest available figures be presented to the next meeting of the Committee.

**17. East Kent Opportunities LLP**

*(Item 21)*

(1) Mr D Murphy, Cabinet Member for Economic Development and the Project Co-ordinator – Kings Hill introduced the annual report on East Kent Opportunities LLP including an update on recent activity, detailing the re-calibration that had taken place in the wake of Brexit and the Covid-19 pandemic.

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

**18. Counter Fraud Exempt Item**  
(Item )

(1) The Counter Fraud Manager informed the Committee of the arrangements in place to deal with cyber security in schools.

(2) The General Counsel informed the Committee that he would ensure that the issues discussed would be placed on the agenda of the next officer meeting with Kent Police.

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

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From: Ben Watts, General Counsel  
To: Governance and Audit Committee, 27 April 2022  
Subject: Annual Governance Statement  
Status: Unrestricted

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## **Recommendation**

The Governance and Audit Committee is asked to:

- a) Approve the timetable for the Annual Governance Statement 2021/22; and
  - b) Note the update on governance activity
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### **1. Introduction**

- a) This report provides an update for Members in relation to the process for the Annual Governance Statement for 2021/22 and seeks approval for the draft timetable. The report also provides an update on the ongoing activity which has previously been reported to the Committee and will be supplemented by a short presentation at the Committee meeting on 27 April 2022.
- b) The final version of the Annual Governance Statement for 2020/21 was approved on 30 November 2021 and work has been progressing against the activities and actions identified therein. The draft version of the last year's Annual Governance Statement came to the Committee in July 2021. This was the first time that it had come to Committee in draft.

### **2. Annual Governance Statement Timetable 2021/22**

- a) It is recommended by officers that the Annual Governance Statement is once again brought to the Committee in draft. Involvement and observations from the Committee were helpful in defining and agreeing the final version of the document.
- b) Whilst there were good reasons given the work programme of the Committee for the final version of the statement to be agreed in November, it is recommended that for this year, the final version be brought before the Committee by October at the latest.
- c) As such the proposed timetable would be:

- a. Initial Discussion of the Draft Annual Governance Statement 2021/22 – 11 July 2022
- b. Discussion of final draft of Annual Governance Statement 2021/22 – October 2022
- d) The decision is brought for discussion at the Committee to ensure that Members are content with this approach and timings and to make sure that all views are considered given the importance of the Annual Governance Statement.

### **3. Annual Governance Statement – Actions Arising**

- a) The Annual Governance Statement for 2020/21 included a range of activity to be undertaken by the Monitoring Officer and other colleagues. The Monitoring Officer will circulate a presentation on Monday 25 April 2022 which will provide, for interest, an update on the current status of the work that has been ongoing since November. The presentation will also be made available as part of the papers to the meeting.
- b) The promised formal mid-year review of the activities and actions will be presented in a paper to the Committee at the July meeting.

### **4. Recommendations**

The Governance and Audit Committee is asked to:

- a) Approve the timetable for the Annual Governance Statement 2021/22; and
- b) Note the update on governance activity

### **5. Report Author and Relevant Director**

Ben Watts, General Counsel  
03000 416814  
[benjamin.watts@kent.gov.uk](mailto:benjamin.watts@kent.gov.uk)



By: Shellina Prendergast, Cabinet Member Education and Skills  
 Matt Dunkley, Corporate Director of Children, Young People and Education

To: Governance and Audit Committee – 27 April 2022

Subject: SCHOOLS AUDIT ANNUAL REPORT

Classification: Unrestricted

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**Summary:** The Annual Report summarises the Schools Financial Services (SFS) compliance programme and other activities undertaken during 2020-21 which enables the Chief Finance Officer (CFO) to certify that there is a system of audit for schools which gives adequate assurance over financial management standards in Local Authority (LA) maintained schools.

## **FOR ASSURANCE**

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### **1. Introduction**

- 1.1 The DfE requires that the CFO, (i.e., the Corporate Director of Finance), signs an annual assurance statement by the 31 May each year, confirming that there is a system of audit for schools which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending.
- 1.2 The content of this report provides detail of processes, metrics and controls that give the necessary assurance needed for the CFO to sign the annual DfE assurance statement.

### **2. Approach**

- 2.1 The following are processes, metrics and controls that provide assurance over the financial management standards in LA schools:

**2.2 Financial Compliance programme** – The programme of school on site visits are carried out by SFS, who are a service within The Education People. Each school will receive a financial compliance visit at least once every four years that consists of 102 targeted questions covering 9 different areas of control including Governance and Leadership, Financial Planning and Monitoring and Procurement.

Due to Covid the financial compliance programme was suspended for the period March 2020 to September 2021.

**2.3 Internal Audit of the Compliance Programme** – The KCC Internal Audit Team annually (May/June) carry out an audit of the Compliance programme to ensure they are satisfied that the totality of activities undertaken by the Returns and Compliance Team

(Statutory returns and alternative compliance visit approach) are sufficient to provide the required assurance to support the section 151 officer certification of the Schools Financial Value Standard/ annual DfE assurance statement.

Internal Audit review of activities in relation to the 3-Year Plan, Half Year and 9 Month reviews, and Closedown found that:

- Robust controls are in place to monitor that all schools have submitted required statutory returns information.
- The tracking logs used to monitor statutory returns activities are kept up to date and provide a view of schools which have or have not submitted their information and the progress made with processing and providing feedback.
- Returns submitted by schools are subject to a consistent review process using a standard workbook designed to ensure that all key aspects of the documents returned have been checked.
- Feedback is provided to schools in a standard format.
- Additional sample testing was completed in relation to 3-Year Plan, 6 and 9 Month Review and Closedown activities which confirmed that the standard workbooks had been fully completed during 2020/21 and that feedback or outturn reports had been generated and sent to schools.
- The alternative approach to undertaking compliance work with schools was agreed between SFS and KCC.
- Approximately 1/3<sup>rd</sup> of schools voluntarily submitted their documents for review and received observations.
- Established processes were replicated to ensure that returns for the alternative compliance work could be monitored and tracked through to completion. A consistent review was undertaken of all documents submitted using standard workbooks.
- Whilst normal compliance work has not been undertaken, the opportunity has been used to fully review and update the existing testing workbook template to ensure that relevant areas will be covered for testing on resumption of visits.

**2.4 Schools Financial Value Standard SFVS-** Schools complete an annual self-assessment which is agreed by governors and is sent to SFS as part of schools' statutory returns. This document is referred to when conducting a compliance visit and is referenced within the report against any recommendations made. All 314 LA schools (1 Nursery, 265 primary, 22 Secondary, 21 Special, 5 PRU) submitted a return that met the required deadline.

**2.5 Deficit Schools –** At the end of the financial year 2020-21, 0.4% of Kent Primary Schools were in deficit (1 out of 269) compared to the national Local Authority average of 10% (this would mean 27 primary schools in Kent would be in deficit), which ranged between 0% to 46% of schools being in deficit. SFS has a dedicated Schools Support Team whose primary function/objective is to prevent schools from going into deficit.

**2.6 Traded financial services -** SFS provides two types of financial service to schools, the benefit of this is twofold, the first is that it supports good financial management in schools and the second is that a gross profit margin of around 30% is achieved, the two types of traded services are:

- An individual school specific bursarial service for around 110 schools at any point in time throughout the year.

- A Help Desk service providing guidance and support on school specific finance related matters, where around 420 schools subscribe. For the period April 2020 to March 2021 there were 15,087 (phone calls 6,534, emails 9,353) logged and completed incidents

**2.7 Training-** There is a comprehensive finance training programme for Headteachers, senior leaders, bursars and governors and Finance Information Groups for bursars and other finance staff. During 2020-21 there were 99 training courses and 3 Finance Information Groups attended by over 1500 delegates from Kent maintained schools and academies.

**2.8 School Finance Systems Support –** A key component in maintaining financial management standards in schools is to ensure that schools have the appropriate financial systems and tools to achieve this. KCC (via SFS) currently support a monitoring and budgeting system called Business Planning Software provided by a company called Orovia and a financial accounting system called Financial Management System 6 provided by Education Solution Software.

**2.9 KCC annual audit of accounts –** Sample testing of schools' financial statements are included in the annual KCC audit carried out by Grant Thornton.

### **3. Summary of Findings**

3.1 Alongside the compliance programme, the analysis of returns, training programme and traded activities with schools, SFS regularly liaise and work with other colleagues who support schools. This includes meetings with Area Education Officers and School Improvement Officers to ensure KCC have a complete picture of a school, so that support can be provided to the Headteacher, finance staff and governors to ensure the school is financially well managed.

3.2 Although the compliance programme was suspended for the period of this report, the internal audit provides a judgement of adequate with prospects of improvement being very good.

3.3 Due to the suspension of the compliance programme there were some schools that did not meet the rule of having a compliance visit once every four years. In acknowledgement of this, additional resources have been provided so that 170 school visits instead of 100 visits can be done over the period September 2021 to August 2022. By carrying out the additional 70 visits this will ensure that all schools are within the required cycle of a visit once every four years by September 2022.

### **4. Opinion**

4.1 It is considered that the comprehensive compliance programme and themed audits (when undertaken), the statutory information analysed, training programme, traded work completed in schools and the schools' own self assessments provide suitable assurance for the SFVS Statement to be signed.

### **5. Recommendations**

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

From:	Peter Oakford, Deputy Leader and Cabinet Member for Finance, Traded and Corporate Services
To:	Zena Cooke, Corporate Director of Finance Governance and Audit Committee – 27 April 2022
Subject:	Treasury Management quarterly update 2021-22
Classification:	Unrestricted

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**Summary:**

This report provides a review of Treasury Management Activity 2021-22 to end February 2022

**Recommendation:**

Members are asked to endorse this report and recommend that it is submitted to Council.

**FOR DECISION**

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**Introduction**

1. This report covers Treasury Management activity for the 11 months to 28 February 2022.
2. Kent County Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires authorities to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.
3. The Council's Treasury Management Strategy for 2021-22 was approved by full Council on 11 February 2021.
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.

**External context**

5. The economic recovery from the coronavirus pandemic, together with higher inflation and higher interest rates were major issues over the period. The Bank of England (BoE)'s Monetary Policy Committee (MPC) held Bank Rate at 0.1% over the period April through November 2021 but increased it to 0.25% in December 2021 while

maintaining its Quantitative Easing programme at £895 billion. The MPC raised Bank Rate further to 0.5% in February 2022 and to 0.75% in March 2022 and agreed to begin unwinding its Quantitative Easing programme.

6. Estimates show that headline GDP increased by 1.0% in the fourth quarter of 2021 and the 2021 calendar year growth was estimated to be 7.5%. In Quarter 4 2021 household consumption made the largest positive contribution to growth. The level of quarterly GDP in Quarter 4 2021 is now 0.4% below its pre coronavirus level. In the quarter services and construction grew by 1.2% and 1.1% respectively while production fell by 0.4% compared to the previous quarter. The Council's treasury advisor's view is that growth held up better than expected towards the end of 2021 but the outlook for household finance is extremely challenging as real disposable incomes contract due to high inflation and tax rises.
7. The February 2022 headline rate of UK Consumer Price Inflation (CPI) beat expectations at 6.2%, up from 5.5% in January largely due to higher energy prices. This is the highest recorded CPI 12-month inflation rate since March 1992 when it stood at 7.1%.
8. Government initiatives supporting the economy came to an end on 30 September 2021 with the end of the furlough scheme. The most recent Labour Force Data shows that the labour market continues to recover; the three months to January 2022 shows a quarterly increase in the employment rate and a decrease in the unemployment rate. The unemployment rate decreased by 0.2 percentage points on the quarter to 3.9% and this has now returned to pre-coronavirus pandemic levels. However, economic inactivity has increased slightly on the quarter. The UK employment rate increased by 0.1 percentage points on the quarter to 75.6%. This is 1.0 percentage points lower than before the coronavirus pandemic (December 2019 to February 2020).
9. The European Central Bank maintained its base rate at 0% although inflation being above the Bank's target level is putting pressure on this position.
10. Ongoing monetary and fiscal stimulus together with rising economic growth supported equity markets over the period but higher inflation and the prospect of higher interest rates mixed with a new coronavirus variant ensured it was a bumpy period. The Dow Jones, FTSE 100 and 250 indexes rose in the period to the end of 2021 before falling back in 2022.
11. Inflation worries dominated bond yield movements over the period as initial expectations for transitory price increases turned into worries higher inflation was likely to persist for longer meaning central bank action was likely to start sooner and rates increase at a faster pace than previously thought.
12. The 5-year UK benchmark gilt yield began the financial year at 0.36% rising to 0.98% at the end of February 2022. Over the same period the 10-year gilt yield rose from 0.80% to 1.40% and the 20-year yield rose slightly from 1.31% to 1.38%.
13. 1-month, 3-month and 12-month SONIA bid rates averaged 0.25%, 0.31% and 0.63% respectively over the period.

### **Local context**

14. At 31 March 2021 the Council had borrowed £854m and invested £502m 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. These are shown in the following table.

	<b>31 Mar 2021 Actual £m</b>
Loans CFR	1,033.4
External borrowing	-853.7
<b>Internal borrowing</b>	<b>179.7</b>
Less: balance sheet resources	-681.7
<b>Treasury investments</b>	<b>502.0</b>

15. Lower official interest rates have reduced the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low.
16. The treasury management position on 28 February 2022 and the change over the eleven months is shown in the following table.

	<b>31 Mar 2021 Balance £m</b>	<b>Movement £m</b>	<b>28 Feb 2022 Balance £m</b>	<b>28 Feb 2022 Rate %</b>
Long-term borrowing	853.7	-27.5	826.2	4.47
<b>Total borrowing</b>	<b>853.7</b>	<b>-27.5</b>	<b>826.2</b>	<b>4.47</b>
Long-term investments	261.8	+29.0	290.7	3.14
Short-term investments	105.4	-48.5	56.9	0.16
Cash and cash equivalents	135.0	-10.1	124.9	0.27
<b>Total investments</b>	<b>502.1</b>	<b>-29.6</b>	<b>472.5</b>	<b>2.05</b>
<b>Net borrowing</b>	<b>351.6</b>	<b>+2.1</b>	<b>353.7</b>	

### **Borrowing Update**

17. CIPFA published a revised Prudential Code for Capital Finance in Local Authorities on 20 December 2021.
18. The Code took immediate effect and in order to comply with the Code, authorities must not borrow to invest primarily for financial return. The Code also states that it is not prudent for local authorities to make investment or spending decisions that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

19. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure.
20. The changes align the CIPFA Code with the PWLB which prohibits access to authorities planning to purchase 'investment assets primarily for yield' except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
21. Kent County Council is not planning to borrow to invest primarily for commercial return and so is unaffected by these changes.
22. The Municipal Bonds Agency (MBA) is working to deliver a new short-term loan solution allowing local authorities in England to access short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.
23. The UK Infrastructure Bank which is backed by HM Treasury has earmarked £4bn for lending to local authorities. There is an application and bidding process for these loans which is likely to favour environmental or regeneration projects. Loans will be available for qualifying projects at gilt yields plus 0.6%, which is 0.2% lower than the PWLB certainty rate. The first loan was made by this bank in October 2021 to Tees Valley Combined Authority.
24. During 2022-23 the Council will be making changes to its systems and processes in order to implement the revised reporting arrangements for the 2023-24 financial year which are consistent with the Prudential Code's new requirements.

### **Borrowing Strategy during the period**

25. 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.
26. In keeping with these objectives no new borrowing was undertaken and £27.5m of existing loans were allowed to mature without replacement. At 28 February the Council had total external debt of £826.2m.
27. With short-term interest rates remaining much lower than long-term rates, the Council has considered it to be more cost effective in the near term to use internal resources or has borrowed short term loans instead. The Council's strategy has enabled it to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
28. The Council 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,

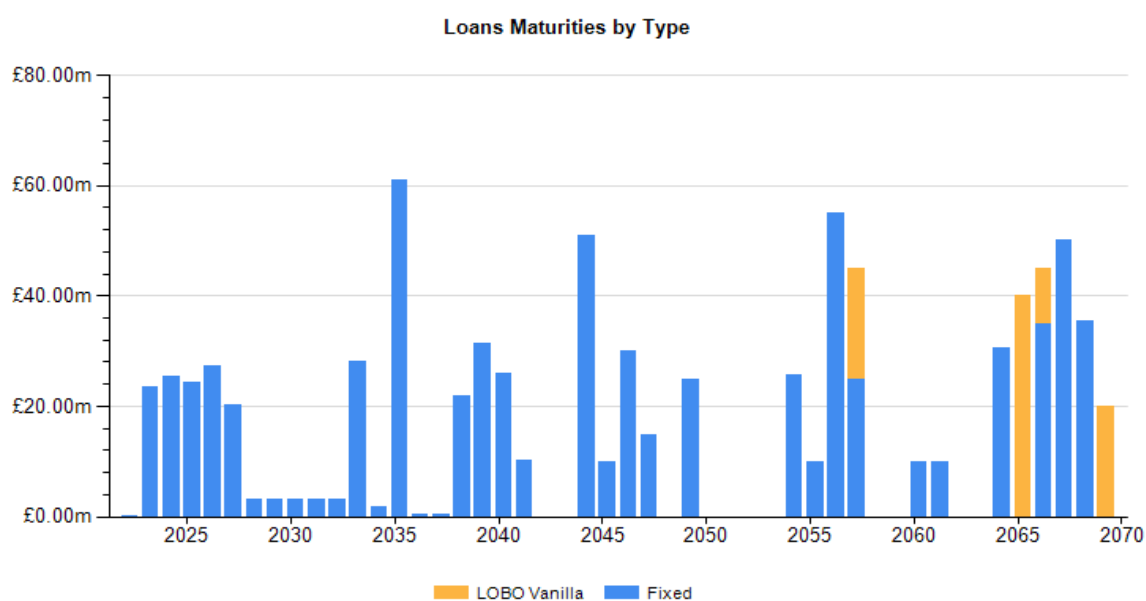


following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

29. The Council's borrowing activity in the 11 months to 28 February 2022 is as follows.

	31 Mar 2021	2021-22	28 Feb 2022	28 Feb 2022	28 Feb 2022
	Balance	Movement	Balance	Average Rate	Value Weighted Average Life
	£m	£m	£m	%	yrs
Public Works Loan Board	449.6	-22.7	426.9	4.70%	15.77
Banks (LOBO)	90.0	0.0	90.0	4.15%	41.96
Banks (Fixed Term)	291.8	0.0	291.8	4.40%	36.59
Streetlighting project	22.3	-4.8	17.5	1.60%	11.08
<b>Total borrowing</b>	<b>853.7</b>	<b>-27.5</b>	<b>826.2</b>	<b>4.47%</b>	<b>25.88</b>

30. The maturity profile of the Council's outstanding debt as at 28 February was as per the following chart.



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

Loan Principal Maturity Period	Total Loan Principal Maturing	Balance of Loan Principal Outstanding
Balance 28/02/22		£826,223,643
Maturity 0 - 5 years	£104,778,785	£721,444,859

Maturity 5 - 10 years	£3,322	£721,441,536
Maturity 10 - 15 years	£116,139,301	£605,302,236
Maturity 15 - 20 years	£97,702,236	£507,600,000
Maturity 20 - 25 years	£105,800,000	£401,800,000
Maturity 25 - 30 years	£25,000,000	£376,800,000
Maturity 30 - 35 years	£135,700,000	£241,100,000
Maturity 35 - 40 years	£20,000,000	£221,100,000
Maturity 40 - 45 years	£165,600,000	£55,500,000
Maturity 45 - 50 years	£55,500,000	£0
Total	£826,223,643	

### Treasury management investment activity

32. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20 December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
33. The Council holds significant investment funds representing income received in advance of expenditure plus balances and reserves and the average investment balances to date have amounted to £543.5m.
34. 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.
35. The Council continues to hold significant balances in money market funds as well as in bank call accounts which have same day availability. This liquid cash was diversified over several counterparties and money market funds to manage both credit and liquidity risks.
36. At 28 February 2022 the Council had no loans outstanding with other local authorities and at the present time has no plans to lend to other local authorities. Any request to borrow will be assessed in terms of our own cashflow requirements and within our effective lending policies and procedures.
37. During the 11 months the Council made loans totalling £8.0m to the no use empty loans programme, increasing the total lent as at 28 February to £14.1m, achieving a return of 1.5% which is available to fund general services.

38. The Council's investments during the 11 months to the end of February 2022 are summarised in the table below and a detailed schedule of investments as at 28 February 2022 is in Appendix 1.

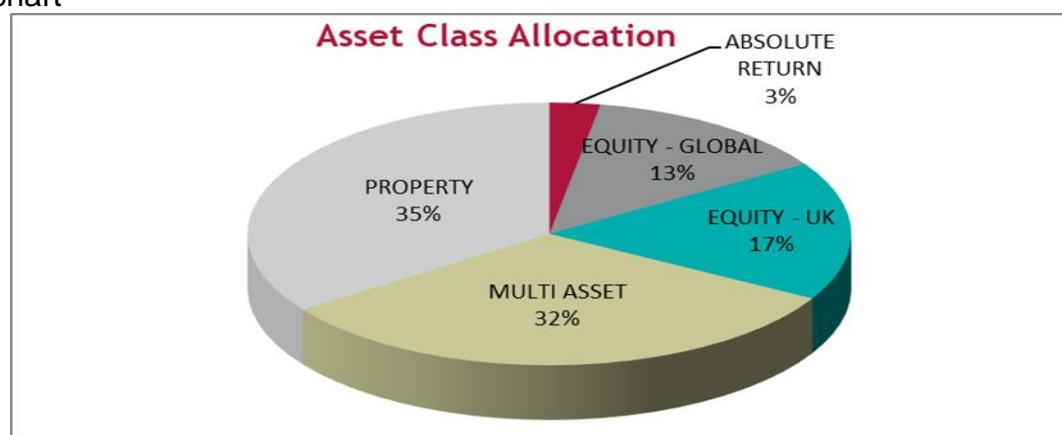
	31 Mar 2021	2021-22	28 Feb 2022	28 Feb 2022	28 Feb 2022
	Balance	Movement	Balance	Rate of Return	Average Credit Rating
	£m	£m	£m	%	
Bank Call Accounts	45.0	-34.4	10.6	0.08	A+
Money Market Funds	135.0	-20.6	114.3	0.29	A+
Local Authorities	51.0	-51.0	0.0		
Covered Bonds	79.7	11.3	91.0	0.88	AAA
DMO Deposits (DMADF)	9.4	40.5	49.9	0.17	AA-
Government Bonds	0.0	7.0	7.0	0.06	AA-
No Use Empty Loans	6.1	8.0	14.1	1.50	
Equity	2.1	0.0	2.1		
<b>Internally managed cash</b>	<b>327.4</b>	<b>-383.4</b>	<b>289.0</b>	<b>0.45</b>	<b>AA</b>
<b>Strategic Pooled Funds</b>	<b>174.7</b>	<b>8.8</b>	<b>183.5</b>	<b>4.43</b>	
<b>Total</b>	<b>502.1</b>	<b>-29.6</b>	<b>472.5</b>	<b>2.05</b>	

### Externally managed investments

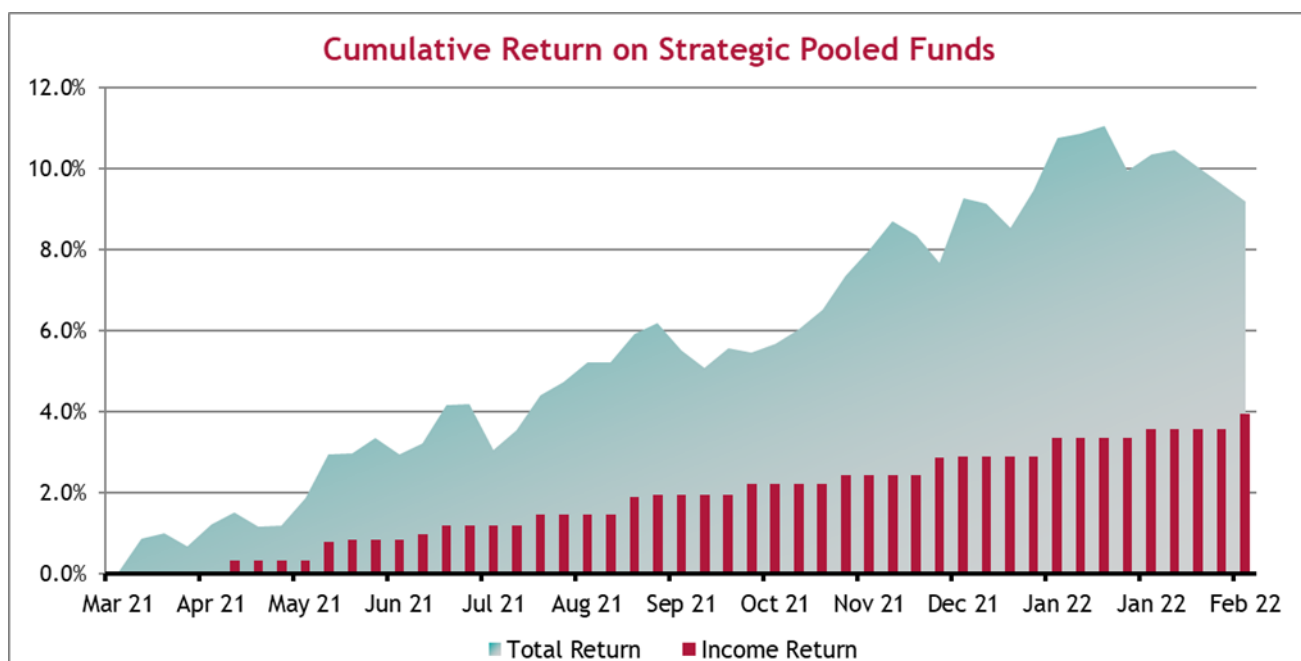
39. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.

40. Strategic pooled 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.

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



42. **Performance YTD:** The Council is invested in bond, equity, multi-asset and property funds. The improved market sentiment in the period to end February is reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the property, equity and multi-asset income funds. The prospect of higher inflation and rising bond yields have however resulted in muted bond fund performance.
43. The following chart tracks the returns earned on the pooled funds over the 11 months to end February 2022.

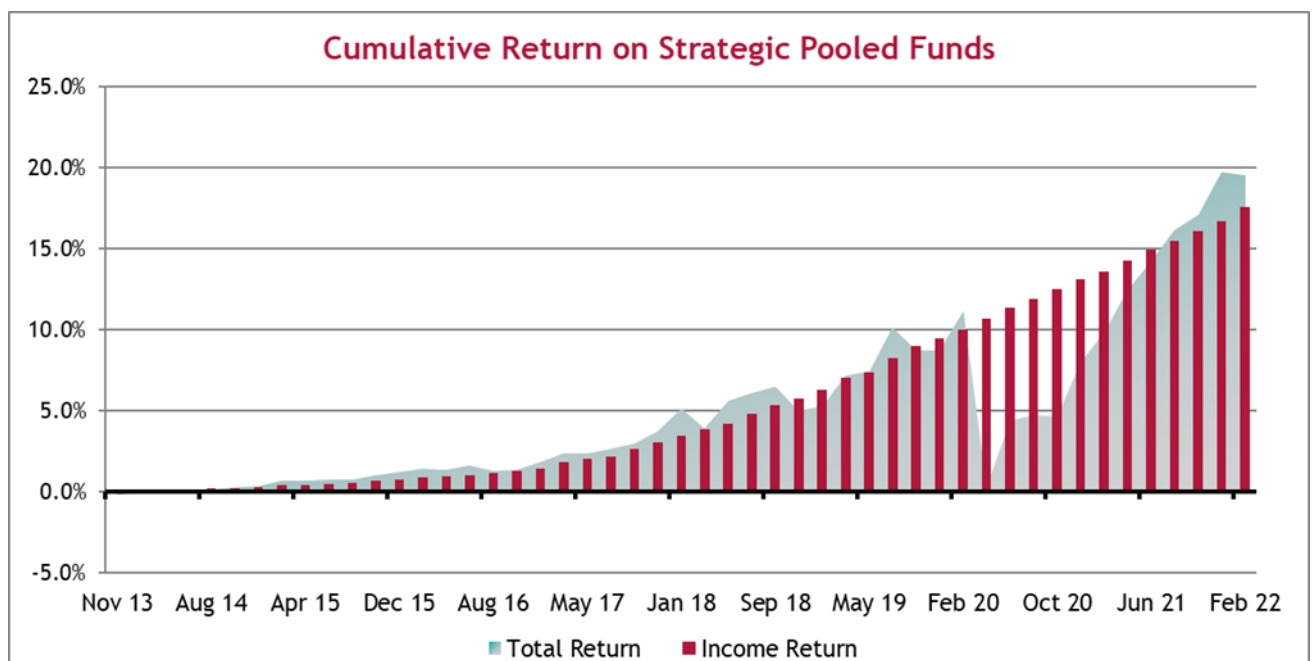


44. Details of the change in capital values and income earned is shown in following table.

		31 Mar 2021	2021-22	28 Feb 2022	28 Feb 2022	28 Feb 2022
Investment Fund	Book cost	Market Value	Movement	Market Value	11 months return	11 months return
	£m	£m	£m	£m	Income	Total
					%	%
Aegon (Kames) Diversified Monthly Income Fund	20.0	20.17	-0.53	19.64	4.53	2.29
CCLA - Diversified Income Fund	5.0	4.95	0.09	5.04	7.34	9.15
CCLA – LAMIT Property Fund	60.0	57.09	7.88	64.96	3.54	16.58
Fidelity Global Multi Asset Income Fund	25.0	24.67	-0.83	23.84	3.86	0.50
M&G Global Dividend Fund	10.0	12.26	0.97	13.23	1.96	10.16
Ninety One (Investec) Diversified Income Fund	10.0	10.11	-0.52	9.59	3.52	-1.57

Pyrford Global Total Return Sterling Fund	5.0	5.00	0.05	5.05	1.36	2.28
Schroder Income Maximiser Fund	25.0	19.39	1.50	20.89	7.13	14.87
Threadneedle Global Equity Income Fund	10.0	10.86	0.34	11.19	2.73	5.83
Threadneedle UK Equity Income Fund	10.0	9.59	0.49	10.09	2.82	7.96
<b>Total Externally Managed Investments</b>	<b>180.0</b>	<b>174.7</b>	<b>9.83</b>	<b>183.53</b>	<b>3.94</b>	<b>9.20</b>

45. **Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of February 2022 the pooled funds had achieved a total income return of £36.03m, 17.58% cumulative return, with a rise in the capital value of the portfolio of £3.99m, 1.95%. We are long term investors and invested for income to support the Council's services. The following chart tracks the returns earned on the pooled funds over the period from inception.



### Investment benchmarking at 31 December 2021

46. The Council's treasury advisor, Arlingclose, monitors the risk and return of some 127 local authority investment portfolios. The metrics over the 9 months to 31 December 2021 have been extracted from their quarterly investment benchmarking.
47. As shown in the table below the risk within the Kent internally managed funds has been consistent throughout the 9-month period while being lower than that of other local authorities. The lower risk within the Kent portfolio reflects the lower Bail-in exposure which has reduced further during the 9 months. The income return has fallen reflecting reduced rates payable on our cash investments.

Internally managed investments	Credit Score	Credit Rating	Bail-in Exposure %	Weighted Average Maturity (days)	Rate of Return %
Kent - 31.03.2021	3.76	AA-	53	146	0.21
<b>Kent – 31.12.2021</b>	<b>3.34</b>	<b>AA</b>	<b>41</b>	<b>158</b>	<b>0.24</b>
Similar LAs	4.23	AA-	47	1,457	0.33
All LAs	4.64	A+	66	16	0.10

48. The following table shows that overall, KCC's investments in strategic pooled funds are achieving a strong income return compared with that of other local authorities. The returns do not take account of the further improvement in the financial markets in the 3 months to 31 March 2022.

	Rate of Return – Income only %	Total Rate of Return %
<b>Strategic Funds at 31.12.2021</b>		
<b>Kent</b>	<b>4.17</b>	<b>10.00</b>
Similar LAs	3.75	9.20
All LAs	3.68	9.16
<b>Total Investments at 31.12.2021</b>		
<b>Kent</b>	<b>1.72</b>	<b>5.51</b>
Similar LAs	1.03	2.82
All LAs	0.66	1.95

### Forecast outturn

49. The forecast return on the Council's investment portfolio is £7.7m, 1.6%, which is used to support services in year.
50. The forecast average rate of debt interest payable in 2021-22 is 4.5%, based on an average debt portfolio of £840m.

### Compliance

51. The Corporate Director of Finance reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

### Treasury Management Indicators

52. The Council measures and manages its exposures to treasury management risks using the following indicators.

53. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Actual 28 Feb 2022	Target
Portfolio average credit rating	AA	AA

54. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Actual 28 Feb 2022	Target
Total cash available within 3 months	£155m	£100m

55. **Interest rate exposures:** This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Actual 28 Feb 2022	Upper Limit
One-year revenue impact of a 1% <u>rise</u> in interest rates	£1.5m	£10m
One-year revenue impact of a 1% <u>fall</u> in interest rates	-£898K	-£10m

56. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

	Actual 28 Feb 2022	Upper limit	Lower limit
Under 12 months	0.00%	100%	0%
12 months and within 5 years	12.68%	50%	0%
5 years and within 10 years	0.00%	50%	0%
10 years and within 20 years	25.88%	50%	0%
20 years and within 40 years	34.68%	50%	0%
40 years and longer	26.76%	50%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

57. **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	<b>Actual</b>	<b>Limit</b>	<b>Limit</b>	<b>Limit</b>
<b>Price risk indicator</b>	<b>28 Feb 2022</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Principal invested beyond year end	£133.7m	£300m	£300m	£300m

## Recommendation

58. Members are recommended to endorse this report and recommend that it is submitted to Council.

**Nick Buckland**  
**Head of Pensions and Treasury**  
[Nick.buckland@kent.gov.uk](mailto:Nick.buckland@kent.gov.uk)  
**Ext: 03000 413984**  
**April 2022**

Appendices:

- 1 Investments as at 28 February 2022
2. Glossary of local authority treasury management terms



## Investments as at 28 February 2022

## 1. Internally Managed Investments

## 1.1 Term deposits, Call accounts and Money Market Funds

Instrument Type	Counterparty	Principal Amount £	Interest Rate	End Date
Treasury Bills	DMO	6,997,906	0.060%	09/05/22
<b>Total Treasury Bills</b>		<b>6,997,906</b>		
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	15,400,000	0.070%	15/03/22
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	19,500,000	0.095%	25/04/22
Fixed Deposits	DMADF (Debt Management Account Deposit Facility)	15,000,000	0.370%	25/03/22
<b>Total DMADF</b>		<b>49,900,000</b>		
Call Account	National Westminster Bank plc	2,768,000	0.01%	
Call Account	Santander UK plc	6,800,000	0.12%	
Call Account	Lloyds Bank plc	1,000,000	0.01%	
<b>Total Bank Call Accounts</b>		<b>10,568,000</b>		
<b>No Use Empty Loans</b>		<b>14,080,091</b>	1.50%	
<b>Registered Provider</b>	<b>£10m loan facility – non utilisation fee</b>		0.40%	31/03/23
<b>Registered Provider</b>	<b>£5m loan facility – non utilisation fee</b>		0.40%	16/06/23
Money Market Funds	LGIM GBP Liquidity Class 4	19,758,838	0.274%	
Money Market Funds	Deutsche Managed GBP LVNAV Platinum	19,990,081	0.307%	
Money Market Funds	Aviva Investors GBP Liquidity Class 3	19,976,743	0.267%	
Money Market Funds	Aberdeen GBP Liquidity Class L3	19,601,320	0.272%	
Money Market Funds	Federated Hermes Short-Term Prime Class 3	14,997,321	0.309%	
Money Market Funds	HSBC GBP Liquidity Class F	1,452	0.221%	
Money Market Funds	Northern Trust GBP Cash Class F	19,999,529	0.289%	
<b>Total Money Market Funds</b>		<b>114,325,284</b>		
<b>Equity and Loan Notes</b>	Kent PFI (Holdings) Ltd	<b>2,135,741</b>		n/a

## 1.2 Bond Portfolio

Bond Type	Issuer	Adjusted Principal £	Coupon Rate	Maturity Date
Fixed Rate Covered Bond	Leeds Building Society Bonds	4,202,100	1.29%	17/04/23
Fixed Rate Covered Bond	Bank of Scotland - Bonds	4,366,598	1.71%	20/12/24
Fixed Rate Covered Bond	Bank of Scotland - Bonds	6,794,066	0.43%	20/12/24
Floating Rate Covered Bond	Santander UK - Bonds	5,000,649	0.73%	16/11/22
Floating Rate Covered Bond	Lloyds - Bonds	2,500,909	0.57%	27/03/23
Floating Rate Covered Bond	Lloyds - Bonds	2,501,213	0.57%	27/03/23
Floating Rate Covered Bond	Lloyds - Bonds	5,002,142	0.57%	27/03/23
Floating Rate Covered Bond	Nationwide Building Society -	4,501,504	0.63%	12/04/23

	Bonds			
Floating Rate Covered Bond	Nationwide Building Society - Bonds	5,581,003	0.63%	12/04/23
Floating Rate Covered Bond	Bank of Montreal - Bonds	5,001,669	0.65%	17/04/23
Floating Rate Covered Bond	Nationwide Building Society - Bonds	3,995,371	1.10%	10/01/24
Floating Rate Covered Bond	Santander UK - Bonds	2,001,344	0.88%	12/02/24
Floating Rate Covered Bond	TSB Bank - Bonds	2,501,679	1.37%	15/02/24
Floating Rate Covered Bond	Royal Bank of Canada - Bonds	1,804,007	0.86%	03/10/24
Floating Rate Covered Bond	Royal Bank of Canada - Bonds	9,035,734	0.86%	03/10/24
Floating Rate Covered Bond	Royal Bank of Canada - Bonds	5,043,787	0.94%	30/01/25
Floating Rate Covered Bond	Bank Of Nova Scotia Bonds	5,126,053	1.10%	14/03/25
Floating Rate Covered Bond	Canadian Imperial Bank of Commerce - Bonds	5,151,065	1.11%	15/12/25
Floating Rate Covered Bond	National Australia Bank - Bonds	5,151,865	1.11%	15/12/25
Floating Rate Covered Bond	Bank of Nova Scotia	720,939	1.42%	26/01/26
Floating Rate Covered Bond	Yorkshire Building Society - Bonds	3,008,642	0.68%	18/01/27
Floating Rate Covered Bond	Yorkshire Building Society - Bonds	2,003,956	0.68%	18/01/27
<b>Total Bonds</b>		<b>90,996,295</b>		

<b>Total Internally managed investments</b>	<b>289,003,317</b>
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## 2. Externally Managed Investments

Investment Fund	Book Cost £	Market Value at 28-February-22 £	11 months return to 28-February-22	
			Income	Total
Aegon (Kames) Diversified Monthly Income Fund	20,000,000	19,642,976	4.53%	2.29%
CCLA - Diversified Income Fund	5,000,000	5,043,510	7.34%	9.15%
CCLA - LAMIT Property Fund	60,000,000	64,961,520	3.54%	16.58%
Fidelity Global Multi Asset Income Fund	25,038,637	23,841,353	3.86%	0.50%
M&G Global Dividend Fund	10,000,000	13,226,117	1.96%	10.16%
Ninety One (Investec) Diversified Income Fund	10,000,000	9,592,778	3.52%	-1.57%
Pyrford Global Total Return Sterling Fund	5,000,000	5,047,216	1.36%	2.28%
Schroder Income Maximiser Fund	25,000,000	20,893,047	7.13%	14.87%
Threadneedle Global Equity Income Fund	10,000,000	11,193,248	2.73%	5.83%
Threadneedle UK Equity Income Fund	10,000,000	10,086,388	2.82%	7.96%
<b>Total External Investments</b>	<b>180,038,637</b>	<b>183,528,153</b>	<b>3.94%</b>	<b>9.20%</b>

## 3. Total Investments

<b>Total Investments</b>	<b>£472,531,470</b>
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## GLOSSARY

### Local Authority Treasury Management Terms

Authorised limit	The maximum amount of debt that a local authority may legally hold, set annually in advance by the authority itself. One of the Prudential Indicators.
Bail-in	A method of rescuing a failing financial institution by cancelling some of its deposits and bonds. Investors may suffer a haircut but may be given shares in the bank as part compensation. See also bail-out.
Bail-out	A method of rescuing a failing financial institution by the injection of public money. This protects investors at the expense of taxpayers. See also bail-in.
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed and bonds issued.
Capital Financing Requirement (CFR)	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 MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Certainty rate	Discount on PWLB rates for new loans borrowed, available to all local authorities that provide a forecast for their borrowing requirements.
Collateral	Assets that provide security for a loan or bond, for example the house upon which a mortgage is secured.
Collective investment scheme	Scheme in which multiple investors collectively 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').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
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.
Credit risk	The risk that a counterparty will default on its financial obligations.
Debt	(1) A contract where one party owes money to another party, such as a loan, deposit or bond. Contrast with equity.

	(2) In the Prudential Code, the total outstanding borrowing plus other long-term liabilities.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.
Discount	(1) The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. See also premium.  (2) To calculate the present value of an investment taking account of the time value of money.
Discount rate	The interest rate used in a present value calculation
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
EIP	Equal instalments of principal. A method of repaying a loan where the principal is repaid over the life of the loan, in equal instalments. Interest payments reduce over time as the principal is repaid.
Equity	An investment which usually confers ownership and voting rights
Equity fund	A collective investment scheme that mainly invests in company shares
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
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.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	Yield on gilts. Commonly used as a measure of risk-free long-term interest rates in the UK
Income return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010
IMF	International Monetary Fund
Interest	Compensation for the use of cash paid by borrowers to lenders on debt instruments.
Internal	A local government term for when actual “external” debt is below the capital financing

borrowing	requirement, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing
Liquidity risk	The risk that cash will not be available to meet financial obligations, for example when investments cannot be recalled and new loans cannot be borrowed
Loan	Contract where the lender provides a sum of money (the principal) to a borrower, who agrees to repay it in the future together with interest. Loans are not normally tradable on financial markets
LOBO	Lender's Option Borrower's option – a long-term loan where the lender has the option to propose an increase in the interest rate on pre-determined dates. The borrower then has the option to either accept the new rate or repay the loan without penalty. LOBOs increase the borrower's interest rate risk and the loan should therefore attract a lower rate of interest initially
Long-term	Usually means longer than one year
Market risk	The risk that movements in market variables will have an unexpected impact. Usually split into interest rate risk, price risk and foreign exchange risk
Maturity	(1) The date when an investment or borrowing is scheduled to be repaid.  (2) A type of loan where the principal is only repaid on the maturity date
MiFID II	The second Markets in Financial Instruments Directive - a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Money Market Fund (MMF)	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
Monetary Policy	Measures taken by central banks to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite. See also fiscal policy and quantitative easing.
MPC	Monetary Policy Committee. Committee of the Bank of England responsible for implementing monetary policy in the UK by changing Bank Rate and quantitative easing with the aim of keeping CPI inflation at around 2%.
MRP	Minimum Revenue Provision – an annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP. Not applicable in Scotland, but see Loans Fund
Operational risk	The risk that fraud, error or system failure leads to an unexpected loss
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').
Price risk	The risk that unexpected changes in market prices lead to an unplanned loss. Managed by diversifying across a range of investments
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by

	law to have regard to the Prudential Code. The Code was updated in December 2021
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy in order to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth maturity profile
REIT	Real estate investment trust – a company whose main activity is owning investment property and is therefore similar to a property fund in many ways
Revolving credit facility (RCF)	A loan facility that can be drawn, repaid and (usually) re-drawn at the borrower's discretion. Interest is payable on drawn amounts, and a commitment fee is often payable in undrawn amounts.
Secured investment	An investment that is backed by collateral and is therefore normally lower credit risk and lower yielding than an equivalent unsecured investment
Share	An equity investment, which usually also confers ownership and voting rights
Short-term	Usually means less than one year
SONIA	Based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Replaced LIBOR from the end of January 2022
Strategic funds	Collective investment schemes that are designed to be held for the long-term, comprising strategic bond funds, diversified income funds, equity funds and property funds
T-bill	Treasury bill - a bill issued by a government
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.
Weighted average life (WAL)	The average time to maturity of an investment portfolio, weighted by the size of the investment and normally expressed in days
Weighted average maturity (WAM)	the average time to the next interest rate reset on an investment portfolio, weighted by the size of the investment and normally expressed in days. A portfolio of fixed rate investments will have a WAM identical to its WAL.
Yield	A measure of the return on an investment, especially a bond. The yield on a fixed rate bond moves inversely with its price



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

To: Governance and Audit Committee – 27 April 2022

Subject: Revised Accounting policies and provisional audit timetable

Classification: Unrestricted

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Summary: This report asks Members to note that there are no changes to accounting policies and to note the provisional external audit timetable.

## FOR INFORMATION

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1. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements".
2. For 2021-22 there are no changes to the accounting policies to report.
3. The Accounts and Audit (Amendment) Regulations 2021 requires that draft accounts are available for public inspection on or before the first working day of August. The provisional timetable for the 2021-22 Statement of Accounts and the audit thereof is as follows:
  - a) Draft Statement of Accounts produced by 30 June 2022
  - b) Audit anticipated to take place between October and December 2022
4. **Recommendation**
  - 4.1 Members are asked to note that there are no changes recommended to the accounting policies and to note the provisional audit timetable.

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

**Emma Feakins**  
Chief Accountant  
Ext: 416082

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By: Benjamin Watts – General Counsel  
To: Governance and Audit Committee – 27 April 2022  
Subject: **External Audit Annual Report on KCC**  
Classification: Unrestricted

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**Summary:** The Annual Report for Kent County Council from the External Auditors, Grant Thornton UK LLP is presented to the Committee for its consideration.

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**FOR ASSURANCE**

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**Recommendations**

- Members of the Governance and Audit Committee are asked to note the Annual Report

**Andrew Tait**  
**Senior Democratic Services Officer**  
**03000 416749**

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# Auditor's Annual Report on Kent County Council



# Contents



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We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. 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.



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

# Executive summary



## Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Our review included consideration of arrangements for the Strategic Plan, the Pension Fund, Transformation, Innovation & Cultural Change, and Covid-19.



### Financial sustainability

Overall, the Council has effective arrangements for managing financial sustainability, although we identified one area of significant weaknesses in 2020-21 arrangements for sustainable management of SEND and EHCP services. One Key Recommendation has been raised. There are effective arrangements for identifying and planning for financial pressure and managing risks to financial resilience in the medium term, although we have also noted four GREEN Priority rated Improvement Recommendations in addition to our Key Recommendations.

Further details can be seen on pages 8-20 of this report.



### Governance

The Council had a comprehensive system of Governance in place during 2020-21, however we note that actions around informal governance at the Council and weaknesses in decision-making processes within the Pension Fund have been raised two years running by other auditors and consultants. We have raised an AMBER Priority rated Improvement Recommendation around informal governance arrangements and an AMBER Priority rated Improvement Recommendation around Pension Fund arrangements. We also noted one GREEN Priority rated Recommendation around the Strategic Risk Register.

Further details can be seen on pages 21-29 of this report.



### Improving economy, efficiency and effectiveness

Kent County Council had effective arrangements in 2020-21 for monitoring performance, evaluating services, working with partners and commissioning and procurement. For 2020-21, we noted two GREEN rated Improvement Recommendations. We also note that the Strategic Reset Programme may bring wider changes to the current arrangements in future years.

Further details can be seen on pages 30-35 of this report.

Criteria	Risk assessment	Conclusion
Financial sustainability	Significant weakness identified	One area of significant weaknesses in arrangements identified. One Key Recommendation and four Improvement Recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but three Improvement Recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but two Improvement Recommendation made.



## Opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 13 December 2021 following the Governance and Audit Committee meeting on 30 November 2021. Our findings are set out in further detail on page 38.





# Key recommendation



The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their audit of arrangements to secure value for money, they should make recommendations setting out the actions that should be taken by the Authority. We have defined these recommendations as 'Key Recommendations'.

Our work identified one significant weakness and this report includes one RED Priority Key Recommendation in connection with that weakness (pages 15 and 16).

As shown on page 6 of this report, we have also noted nine Improvement Recommendations throughout this report. Two are rated as AMBER Priority; and seven are rated as GREEN Priority.

The range of recommendations that external auditors can make is explained in Appendix B.

## Key Recommendation Priority: RED

See pages 15 and 16 for more details and Management Response

The January 2022 draft High Needs financial recovery plan should be finalized and implemented. Effective measures should be put in place to ensure its delivery. Consideration should be given to closer working between the Finance and Children and Young People and Education colleagues and to reflecting the new Ambition Statements within Corporate KPIs. The Council should consider how (and which) other reserves balances could be utilized to close the deficit, should that ever be required by the Secretary of State.

# Improvement recommendations

Priority	VfM Criteria and reference	Recommendation
Amber – medium	Governance Improvement Recommendation 6 – page 28	Actions should be taken around information governance and decision-making <ol style="list-style-type: none"> <li>1. Review of formal governance to increase controls as decision stage</li> <li>2. Creation of a mechanism for recording officer decisions taken under delegation</li> <li>3. Review of Informal Governance Structures and composition</li> <li>4. Review of Officer Decision-Making under delegation</li> <li>5. New approval processes and guidance ahead of decision</li> <li>6. Consequences for non-compliance</li> </ol>
Amber – medium	Governance Improvement recommendation 7 – page 29	Barnett Waddingham Pension Fund Governance recommendations should be tiered or ranked to help with prioritisation and cross checked against Internal Audit recommendations from 2019 and 2021 to ensure completeness of response. It will be essential then that recommendations are implemented promptly.
Green – low or best practice	Financial sustainability Improvement Recommendation 1 – page 17	Consideration should be given to introducing a central PMO function for strengthening savings plans oversight.
Green – low or best practice	Financial sustainability Improvement Recommendation 2 – page 18	The Council should consider whether there is scope for strengthening oversight and challenge as Summary Business Cases are developed by Directorates for Transformation Savings which will be included within the Medium Term Financial Plan.
Green – low or best practice	Financial sustainability Improvement Recommendation 3 – page 19	Steps should continue to manage and reduce the trend towards year on year slippage in the Capital Programme.
Green – low or best practice	Financial sustainability Improvement Recommendation 4 – page 20	Budget documents should show a clear distinction between the cost of proposed statutory and discretionary services.
Green – low or best practice	Governance Improvement Recommendation 5 – page 27	The Corporate Risk Register shows Summary Profiles which for most but not all risks are supported by more detailed analysis. Gaps in detailed analysis should be filled or explained.
Green – low or best practice	Improving the 3 e's Improvement Recommendation 8 – page 34	The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and pandemic.
Green – low or best practice	Improving the 3 e's Improvement Recommendation 9 – page 35	The Council should consider inventorising partnerships so that legal status and commitments can be easily checked.

# Commentary on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources

All local authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money.

Local Authorities report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 3, requires us to assess arrangements under three areas:



## Financial Sustainability

Arrangements for ensuring the Authority can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



## Governance

Arrangements for ensuring that the Authority makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Authority makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Authority delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, is set out on pages 8 to 35 of this report and includes consideration of arrangements to deliver the Strategic Plan, manage the Pension Fund, and achieve Transformation, Innovation and Cultural Change. Our commentary on arrangements to manage the response to Covid-19 are on pages 36-37 of this report.



# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## Identifying and Planning for Financial Pressures

Kent County Council has a strong track record for identifying financial pressure and building that pressure into robust medium term financial planning. The Council delivered a small net surplus on its revenue budget in each of the last 20 years up to 2019-20, a reflection on the robustness of the annual processes for identifying the budget and then controlling it. Even before the outbreak of the Covid-19 pandemic though, 2020-21 had been anticipated as a difficult year. Council officer's 2019 High Level Budget and MTFP Timetable and papers to Cabinet in January 2020 show that forecasting and scenario planning for the medium term were carried out by the Council but for the 13th February 2020 County Council meeting, a one year only Revenue Budget was presented (for £1,063M), noting that because the government settlement was only for one year, it was "not possible to produce a meaningful medium term financial plan". In just over one month later, the Covid-19 pandemic broke out in the UK and Council's February assessment came in some lights to seem prophetic.

Like all Local Authorities, in the wake of the pandemic, Kent County Council experienced a series of rapid fluctuations as new responsibilities and costs fell upon the Council; commercial income streams contracted; and government one-off funding packages were announced. The Council had been due to launch a new 5 Year Strategic Plan in the Spring of 2020. This was delayed and instead an Interim Strategic Plan was developed to allow a window for responding to the changes occurring. On 2nd September 2020, an Amended 2020-21 Revenue Budget of £1,100M was published by the Council. This took account all expected Covid-19 impacts that could be identified at the time of writing the Amended Budget and included commentary on the Medium-Term Outlook. The Statement of Accounts for 2020-21 showed that by the year end, the final Net Cost of Services for the year was £1,129M, whilst Outturn Reports for 2020-21 showed that on Business As Usual (non-Covid) activities, the Council ended the year with a small underspend of £0.78M.

Overall, the experience of 2020-21 shows that Kent County Council has processes in place to identify and plan for financial pressure that are not only robust but also agile. In this respect, the Council's performance is strong.

# Financial sustainability

## Savings Plans

In February 2021, Kent County Council published its Revenue and Budget Plans for 2021-22, together with its assessment of the Medium-Term Outlook for 2022-23 and 2023-24. To balance the budget for 2021-22, the Council identified an in-year Savings and Income requirement of £61.75M. Within that requirement, the Council identified that £22.2M would be drawn down from Reserves and some £13.8M would be generated through Transformation Savings, with the balance being generated from Efficiency, Finance and Policy savings. The Medium-Term Outlook was based around a number of potential scenarios, all of which factored in spending growth and funding forecasts but none of which assumed any further savings after 2021-22. For 2022-23, the scenarios showed a potential budget deficit of between £19.9M and £120.2M. For 2023-24, the scenarios showed a budget gap that might be somewhere in a range of between a surplus of £26.3M and a deficit of £54.6M.

At the Council, directorates and service lines lead on developing and managing most Savings plans, including Transformation savings plans. There is, however, a centralized monitoring and reporting function within Finance. The Finance Monitoring Reports for September 2021 included a standalone report on 2021-22 Forecast Savings Outturn against Target. For the 2021-22 savings target of £39.4M, £30.0M was forecast to be achieved, with some £10M of savings showing as slipping into future years due to “timing issues”.

From review of the Savings Plans published in February 2021 and delivered/ tracked in 2021-22, it is seen that the Council has strong monitoring controls. The Council uses realistic economic and demographic assumptions for budget planning and, for monitoring, can distinguish routine budget variances from savings slippage and, where there is slippage, can distinguish between timing differences and genuine non-achievability. As previously noted, though, the actual savings are identified and delivered by service lines and there is relatively little central project management of savings plans as they progress.

For Transformation Savings, directorates are required to prepare Summary Business Cases which go through an extensive internal challenge process with the Corporate Management Team (CMT) and the Corporate Board before they are approved for inclusion within the MTFP. Within the £13.8M Transformation savings proposed for 2021-22, we tested the Summary Business Cases for £7.7M relating to Adult Social Care (ASC). From our review of the Business Cases, we found that £6.5M of the planned savings related to service redesign for which a PWC diagnostic had not yet been completed and for which risk and mitigations were therefore not yet formally identified. The remaining £1.2M related to planned rationalisation of in-house services for which a future public consultation was still required and for which the total savings potential could not, at the time of writing, be identified.

There are processes in place within the Council for re-phasing planned savings to future years and as already noted, there is reporting functionality which can distinguish between timing issues and genuine unachievability. Nevertheless, the absence of a central Project Management Office (PMO) function for checking Summary Business Cases and the clear tendency towards slippage in 2021-22, indicate that there may be scope for strengthening oversight when savings plans are first developed. Two Improvement Recommendations have been noted about these points **(Improvement Recommendations 1 and 2, pages 17 and 18)**.

# Financial sustainability

## Supporting the Sustainable Delivery of Services

### Supporting the sustainable delivery of services for children and young people with Special Educational Needs and Disability (SEND) and supporting the sustainable delivery of Education Health and Care Plans (EHCPs)

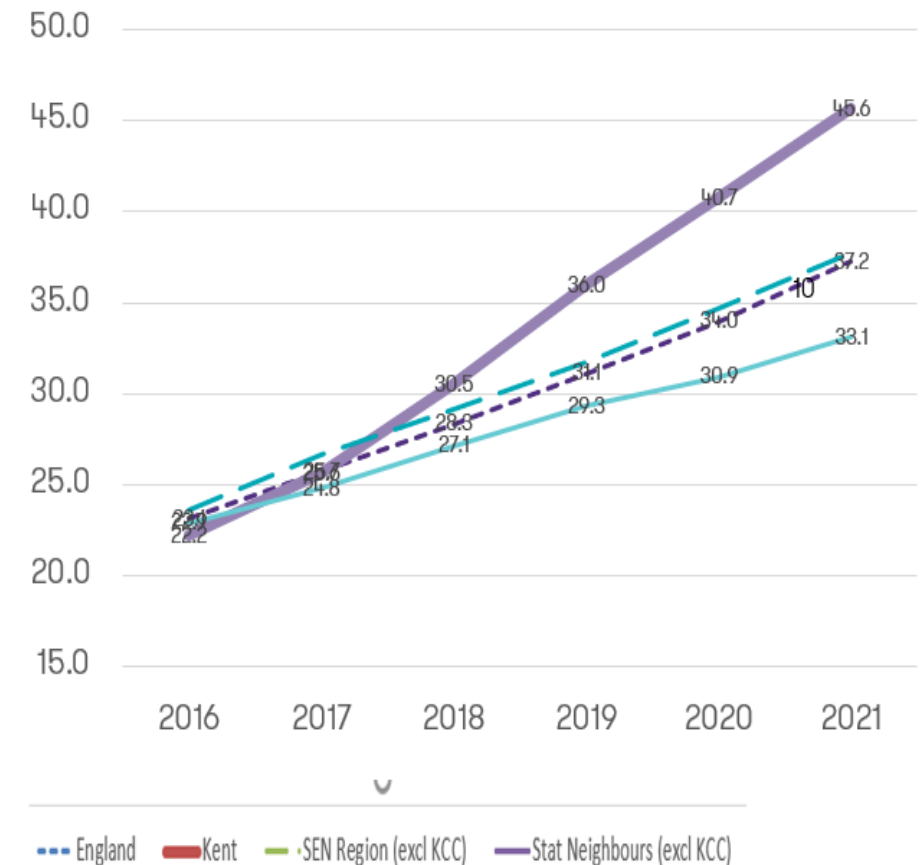
In February 2020, Kent County Council identified its main Revenue Budget risk for 2020-21 as the risk that demand for supporting children and young people with Special Educational Needs and Disability (SEND) would rise by more than the combined value of the High Needs block of income within the Dedicated Schools Grant for 2020-21 and the approved transfers into High Needs from the Main Schools grant block agreed for that year.

In February 2019, this same risk had been identified by the Council for the 2019-20 Revenue Budget. In July 2019, the risk had been discussed in detail by the Council's Scrutiny Committee – with the Committee flagging that overspends on SEND had been accumulating since 2017-18, mainly driven by an increasing number of children referring for Education Health and Care Plans (EHCPs) and lack of parental confidence in SEND offerings within mainstream, local schools.

Funding deficits for SEND has been a growing national issue for more than one year and there are other Local Authorities across England reporting similar risks. Kent County Council's Scrutiny Committee noted in July 2019 that "a three-legged approach" was being used to manage SEND budget risks: Lobbying for legislative change; transferring funds from the Main Schools' budget to the High Needs budget year on year; and changing local processes to achieve savings. However, in the ensuing period to the end of 2020-21, Kent's overspending on "High Needs" increased rather than decreased. On 1st April 2020, the overall accumulated deficit on the Dedicated Schools Grant (DSG) was £21.5M. By 31 March 2021, the overall accumulated deficit on the DSG was £51.049M.

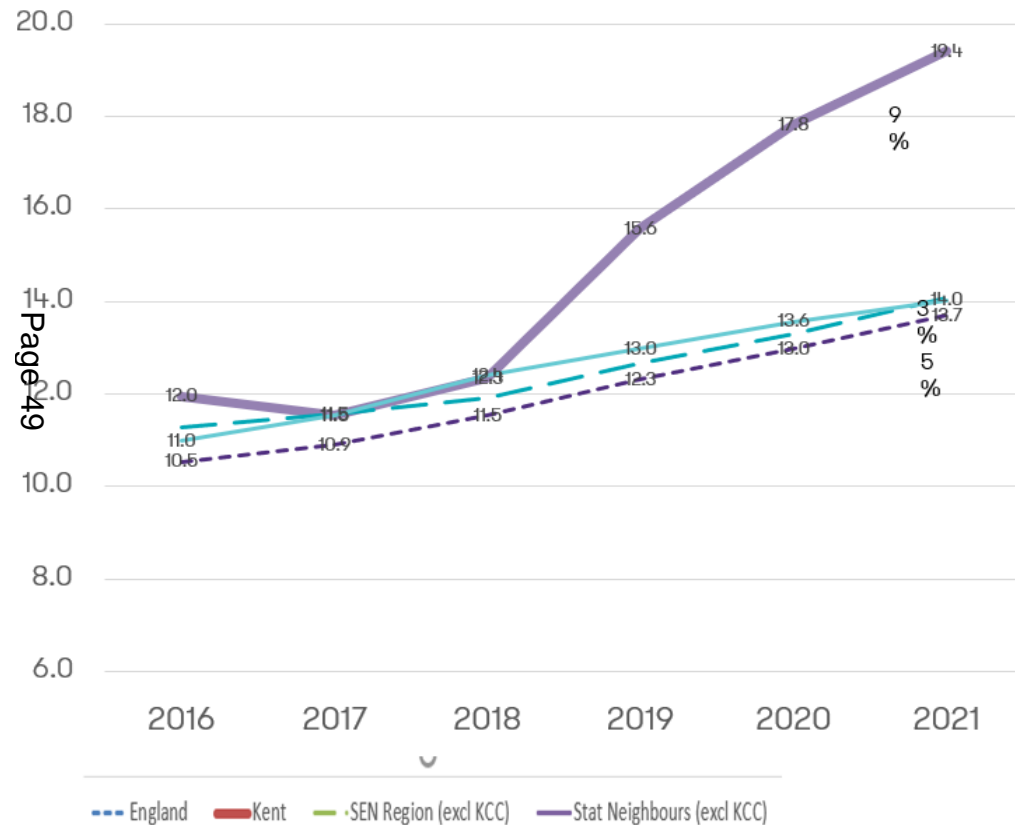
The Council's own analysis forecast in November 2021 showed that by 31 March 2022, the accumulated deficit on the High Needs Budget was expected to reach £102M and, at current rates of progression, would reach £496M by 31 March 2026. The Council's own benchmarking in November 2021 isolated that the biggest drivers behind this acceleration were the steep rise in number of EHCP referrals since 2018 and the trend towards placing referrals in special and independent schools instead of using a mainstream top up solution. For both factors, as Figures 1 and 2 show, the gap between Kent and other Authorities had been growing steadily since as long as 2018. This is clearly unsustainable and the Council has not been quick enough in our view to address demand management and capacity as the financial risk has escalated.

**Figure 1: Kent County Council Benchmarking Data, November 2021 - Total number of EHCPs (0-25 year-olds) per 1000 of 0-18 population**



# Financial sustainability

Figure 2: Placement of children with EHCP in Specialist Provision per 1,000 of the 2 - 18 population – Kent County Council Benchmarking Data, November 2021



For context, we note that a Joint OFSTED and Care Quality Commission (CQC) audit in March 2019 reported significant weaknesses in SEND services provided by Kent. In response, the Council worked with CCG counterparts to strengthen service provision and governance arrangements with partners. This included:

- Creating a new shared governance arrangement with CCGs, including a SEND Improvement Board;
- Setting up a new SEND division within the Children Young People and Education Directorate and create two new senior posts;
- Agreeing a Memorandum of Understanding with the Kent Parent And Carers Together Group (PACT);
- Consulting extensively with key stakeholder groups, including the Kent Head Teachers Association and the Kent Special Educational Needs Trust;
- Holding joint commissioning workshops;
- Creating a Written Statement of Actions in August 2019, supporting the SEND Strategy for 2019-22 and detailing five workstreams to address the weaknesses reported on by OFSTED and CQC; and
- Developing Corporate Key Performance Indicators (KPIs) measuring the Council's effectiveness at responding to Actions from OFSTED and CQC recommendations.

The workstreams developed in 2019 included Actions to improve the quality of EHCPs and close gaps in service provision. However, the Council's benchmarking shows that by 2020-21, nearly 60% of the in-year High Needs expenditure was spent in Special and Independent Schools – where costs are between two-and-a-half and five times higher per pupil than a mainstream top up solution would be.

At the time of conducting our value for money review, in January 2022, Kent County Council was in the process of developing a financial recovery plan for SEND services. The plan will include re-modelling processes and drawing on good practice examples from other Authorities.

The draft modelling shared with us indicates that the in-year High Needs deficits could be eliminated by 2025-26 and that the accumulated deficit on the High Needs budget could be limited to £170M by 31 March 2026. To support this, the SEND Strategy for 2021-24 is being re-issued, with clear statements around the Council's intention to promote local school solutions and to bring service delivery in line national average and statistical neighbours. We regard this area as by far the biggest financial sustainability risk the Council faces.

# Financial sustainability

Our own benchmarking of Attainment data published by the Department for Education in 2021 shows that despite its high rate of EHCP referrals, Kent performs well for Attainment when compared with statistical nearest neighbours. Furthermore, a statutory override provision is in place until 31 March 2023. There is at present no requirement for Local Authorities to repay Dedicated Schools Grant deficits from the General Fund until at least the end of 2022-23, making it possible until 31 March 2023 to balance the budget without needing substantial savings which would otherwise be required to close the Dedicated Schools Grant deficit.

Budget Monitoring reports and updates on the Written Statement of Actions were provided to Members throughout 2020-21. Nevertheless, given the Council's awareness of High Needs Revenue Budget risks flagged well before the start of 2020-21, we note that there would have been scope for starting the financial benchmarking reported to Cabinet Members in November 2021 earlier. In this respect, we consider that there was a significant weakness in 2020-21 arrangements to safeguard the sustainable delivery of services and we make a Key Recommendation.

Page 50

Authorities are required to report three-year High Needs recovery plans where their deficits exceeded 1% of the Dedicated Schools Grant, which has been the case for Kent since 2019-20. The trend towards increasing reliance on special and independent school solutions in the intervening years increased costs not only within the High Needs budget but on other budget lines as well. SEN Transport, for example, is forecast to rise to £41.8M by the end of 2021-22 compared to £30.2M in 2018-19 and dating back further. In this regard, we consider that there was a significant weakness in the timeliness of arrangements to ensure that SEND and EHCP services were sustainable.

Nationally, Councils across England have been reported growing deficits in funding for SEND for a several years, which is why the statutory override provision was introduced. However, as Kent County Council has itself identified, local policies in Kent exacerbated the impact for this Council. Going forward, it will now be critical that the draft financial recovery plan is finalized and implemented and that effective measures are put in place to ensure its delivery. Consideration should be given to strengthening the way that Finance Business Partners work with Children and Young People and Education colleagues, and to reflecting new "Ambition Statements" within Corporate Key Performance Indicators (KPIs). As there is no guarantee that statutory override around funding the Dedicated Schools Grant deficit will be extended after 31 March 2023, the financial recovery plan will also need to consider how (and which) other reserves balances can be utilized to close the deficit, should that be required in future. A Key Recommendation has been raised around these points (**Key Recommendation, pages 15 to 16**).

The criteria for EHCP eligibility is set by Local Authorities (following the national SEND Code of Practice and Children and Families Act 2014). As part of financial recovery, there may be scope for Kent County Council revisiting the criteria it currently has in place. The Council's own data shows that where awards are granted, financial recovery will require shifting from Special and Independent sector commissioning to mainstream top up solutions. Smooth transition to new arrangements around criteria granting EHCP awards and then delivering EHCP plans will depend on stakeholder (schools and parents) satisfaction. Early engagement with schools and parents may help manage expectations. Our VFM audit for 2021-22 will include detailed follow-up on EHCP award criteria and the Council's work with schools and parents to shift the focus from the special and private schools to, where possible, mainstream schooling solutions.



# Financial sustainability

## Supporting the Sustainable Delivery of Other Services

As noted earlier in this report, for 2020-21, Kent County Council recorded a small underspend on Business-As-Usual activities. The “Earmarked reserve to support future year’s budget” was increased from £6.8M to £28.4M between 1 April 2020 and 31 March 2021. For 2021-22, overall, a net drawdown from reserves of £5.2M was planned to balance the budget. However, we note that by September 2021, a forecast 2021-22 overspend of £18.7M was anticipated even after allowing for the planned drawdown from reserves.

Steps taken to streamline the way that Earmarked Reserves are accounted for are discussed at page 14 of our report. The effect is likely to include clearer processes going forward around planning to use reserves for balancing business-as-usual budgets. In light of our comments around steps that may be needed to plan for funding the High Needs deficit if statutory override ends on 31 March 2023, steps to increase discipline around other drawdowns from reserves are timely.

## Financial planning consistency with other operational planning

### Workforce Planning

During our audit, we saw clear links between Kent County Council’s financial planning and other operational planning. The Workforce Planning in the period under our review was embedded within The People Strategy 2017 – 22 and Revenue Budget documents prepared in February 2021 for 2021-22 flagged an intention to increase the balance on a “Workforce Transformation Reserve”.

### Capital Planning

As our Audit Findings Report for 2020-21 noted, our audit procedures for 2020-21 included assessing and benchmarking Kent County Council’s total debt as a percentage of Capital Financing Requirement (85%) and its’ Minimum Revenue Provision as a percentage of the Opening Capital Financing Requirement (more than 4.6%). Both assessments indicate that the Council takes, overall, a prudent approach towards funding its’ Capital Programme.

As part of its’ work to manage the revenue implications of decisions taken around Capital and Investments/Borrowings, a Capital Officers Group was created by the Council in January 2020 as a sub-group of the CMT, reporting to CMT and to the Corporate Management Board. The Capital Programme has shown significant slippage in recent periods – some £175.4M of planned capital expenditure for 2020-21 was rephased to later periods and September 2021 data forecast a further capital underspend in 2021-22 of £103.4M. Going forward, the Council’s aim is to improve oversight of feasibility and time phasing and funding of projects approved for inclusion within the Capital Programme, and to mitigate the risk of optimism bias when projects are approved for inclusion within the Programme. The role of the Capital Officers Group will be to allow for more accurate timeline forecasting; better budgeting; and sharper focus on the revenue implications of any new borrowing to fund the Capital Programme. Reducing the amount of slippage will strengthen financial planning and we have noted an Improvement Recommendation around this point (**Improvement Recommendation 3, page 19**).

The Budget documents published in February 2020 for 2020-21 included clear references to how the budget tied back to Strategic Priorities (as the 5 Year Strategic Plan was in the process of being refreshed when the budget was published). The Budget documents published in February 2021 for 2021-22 included similar references to the Interim Strategic Plan which had been issued by the Council in the wake of the Covid-19 pandemic. We note however that that the documents did not draw a clear distinction between statutory and discretionary services. As the focus on making savings increases in coming years, disclosing how these two are distinguished may add context.

At the time of writing this report, an initiative was underway to introduce new “Outcomes Based Budgeting” processes that are more closely tied financial and non-financial data in the budget setting and monitoring process. This may be an appropriate point at which to capture data around statutory and discretionary budget lines and we have noted an Improvement Recommendation around this point (**Improvement Recommendation 4, page 20**).

# Financial sustainability

## Managing Risks to Financial Resilience

The Statement of Accounts for 2020-21 shows that on 31 March 2021, Kent County Council reserves included £37M of General Fund Reserves and £360M of Earmarked Reserves, which in turn included “Earmarked reserve to support future years budget” of £28.4M and £4.8M of “Other” reserves. As previously noted, the Council’s 2021-22 Budget assumed that to balance, a net drawdown from reserves of £5.2M would be required. Forecasts shared with Cabinet in December 2021 indicated that in fact the drawdown from reserves for 2021-22 may prove higher – an overspend of £18.7M against the balanced budget was forecast. The Council’s Budget risks register for 2022-23 noted the risk that *“overspend against the revenue budget in 2021-22 (will be) required to be met from reserves leading to a reduction in our financial resilience”*.

The Council recognises that continuing to plan for drawdowns from reserves to balance in-year budgets could erode financial resilience. At the end of 2020-21, the Council undertook a detailed review of all earmarked reserves - 87 different line items of earmarked reserve were flagged for closing or merging or transferring back to the General Fund so that they could be more directly monitored. We note that budget documents for 2022-23 published in February 2022 include clear statements that *“any drawdown from general reserves either as part of addressing the 2021-22 overspend or to cover variances from the draft 2022-23 plan would require general reserves to be replenished back up to 5% level at the earliest opportunity, even if this requires delivery of additional savings from the proposed amounts identified for 2023-24 and 2024-25”*.

The streamlining of earmarked reserves to aid tighter control over drawdowns, and the introduction of the Capital Officer’s Group, and the plans around Outcomes Based Budgeting all indicate a process of innovation and cultural change designed to help manage risks to financial resilience in the medium term. Similarly, income from uncertain streams (company dividends and New Homes Bonus) was included within the base budget for 2020-21 and previous years but, with a sharper focus on resilience emerging, these were not included within base budgets for 2021-22.

## Conclusion

The Council has effective arrangements for identifying and planning for financial pressure and is taking clear steps to manage risks to financial resilience in the medium term, although there is scope for strengthening central PMO oversight of savings plans. We note that there were significant weaknesses in 2020-21 arrangements for sustainable management of SEND and EHCP services, although we are aware that benchmarking to support a recovery plan. One Key Recommendation and four Improvement Recommendations have been raised around these points.



# Key recommendation



## Financial Sustainability

### Key Recommendation Priority: RED

The January 2022 draft High Needs financial recovery plan should be finalized and implemented. Effective measures should be put in place to ensure its delivery. Consideration should be given to closer working between the Finance and Children and Young People and Education colleagues and to reflecting the new Ambition Statements within Corporate KPIs. The Council should consider how (and which) other reserves balances could be utilized to close the deficit, should that ever be required by the Secretary of State.

### Why/impact

The High Needs Accumulated Deficit at the end of 2019-20 was £29.7M. The draft Action Plan in January 2022 to contain the future Accumulated Deficit at £170M by 31 March 2026 indicates significant weakness in the timeliness of steps taken to safeguard the sustainability of services. There is no guarantee that statutory override around funding the deficit will be extended after 31 March 2023.

### Auditor judgement

Strong benchmarking data was used by the Council in November 2021 to make the case for change. There has been an awareness of Budget Risk since 2019 and there may have been scope for addressing issues around EHCP referral rates and dependency on special and independent schools earlier.



The range of recommendations that external auditors can make is explained in Appendix B.

# Key recommendation



## Financial Sustainability

### Summary findings

Recovery plan should be finalised and implemented – with support from Finance Business Partners and Corporate KPIs.

### Management comment

Two years have elapsed since the conditions outlined in this report. A substantial amount of work and progress has occurred in the last 2 years in some areas, and we note the negative impact of Covid on progress in others. However, it is fully acknowledged that the process of reducing and then recovering from the DSG deficit created by the High Needs Block overspend is one of the highest County Council priorities.

Closer working between the Finance and CYPE colleagues has already since been introduced. The role and responsibility of schools in contributing towards closing the deficit is also key in terms of the scope and purpose of the High Needs Funding Block.

It should be reflected that having a stronger emphasis/focus on the SEND service within ‘financial business partnering’ will not in itself reduce the number of requests for independent and special schools or changes in EHCP assessment/review practices, which are a key factor in the funding pressures being experienced currently

Since the period covered by the report, the Government has announced that Kent is included in the Safety Valve grant programme. This will involve negotiations with the DfE by the Head of Paid Service and Corporate Directors of Finance and CYPE in the period between May and September 2022 on financial support in a grant from DfE for the historic HNB deficit. As part of that process the DfE will sign off and approve the Council’s Deficit Recovery Plan as a condition of Safety Valve Grant.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Financial Sustainability

**Improvement Recommendation 1**  
**Priority: GREEN**

Consideration should be given to introducing a central PMO function for strengthening savings plans oversight.

**Why/impact**

There are processes in place within the Council for re-phasing planned savings to future years and, as already noted, there is reporting functionality which can distinguish between timing issues and genuine unachievability. Nevertheless, the clear tendency towards slippage in 2021-22 indicates that there may be scope for strengthening oversight when savings plans are first developed.

**Auditor judgement**

Slippage in 2021-22 indicates that there may be scope for strengthening oversight when savings plans are first developed.

**Summary findings**

Potential scope for strengthening oversight of savings plans and reporting on savings.

**Management comment**

Progress on the delivery of savings is now reported as part of the quarterly finance monitoring report to Cabinet. It is part of the overall financial monitoring of the council's budget, with the relevant services required to provide the details of progress against plan and oversight and challenge from finance. Whilst it is acknowledged this was not the case in 2020-21, it is not considered necessary to have a specific PMO now to co-ordinate the savings monitoring as the business as usual arrangements now in place are considered sufficient. It should be noted that separating out the delivery of savings from other variances is not always straightforward.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Financial Sustainability

**Improvement Recommendation 2**  
**Priority: GREEN**

The Council should consider whether there is scope for strengthening oversight and challenge as Summary Business Cases are developed by Directorates for Transformation Savings which will be included within the Medium Term Financial Plan.

**Why/impact**

In February 2021, Kent County Council identified a Savings and Income Requirement for 2021-22 of £39.4M. By September 2021, the Council was forecasting that only £30M of this would be achieved in 2021-22. For the Adult Social Care directorate alone, our testing found that £7.7M of Transformation Savings had related to Summary Business Cases which explicitly stated either that they were “indicative” or that it was “too early” to know their full savings potential. There is no central PMO oversight of directorate-led savings and there may be scope for strengthening the challenge process.

**Auditor judgement**

The Revenue Budget for 2021-22 contained Savings and Income plans which were not necessarily achievable within the timescales the Budget covered.

**Summary findings**

“Indicative” and “early” Transformation Savings plans were included within the Revenue Budget for 2021-22. The plans were directorate-led and there is no central PMO function overseeing directorate-led savings. There may be scope for strengthening challenge or oversight in this area.

**Management comment**

The arrangements for reviewing and challenging the business cases for transformation type savings have been strengthened, including those identified as part of the Council’s Strategic Reset Programme (SRP). There is a dedicated finance resource supporting the SRP undertaking the financial analysis and assessment working with the main finance team including the finance business partners to ensure the robustness of the business cases before they are considered and approved by the SRP Board.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Financial Sustainability

**Improvement Recommendation 3**  
**Priority: GREEN**

Steps should continue to manage and reduce the trend towards year on year slippage in the Capital Programme.

**Why/impact**

The Capital Programme has shown significant slippage in recent periods. Going forward, the Council's aim is to improve oversight of feasibility and time phasing and funding of projects approved for inclusion within the Capital Programme, and to mitigate the risk of optimism bias when projects are approved for inclusion within the Programme.

**Auditor judgement**

Reducing the amount of slippage will strengthen financial planning.

**Summary findings**

Some £175.4M of planned capital expenditure for 2020-21 was rephased to later periods and September 2021 data forecast a further capital underspend in 2021-22 of £103.4M.

**Management comment**

A 10 year capital programme has been approved by county council and implemented to enable more longer term planning and profiling of the capital programme which will help reduce slippage. In addition, a feasibility fund has been established to enable project estimates and timings to be more realistic which should also reduce slippage. A comprehensive capital reporting system is in development with implementation planned during 2022-23 which will provide improved, timely management information which will help identify any issues earlier.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Financial Sustainability

**Improvement Recommendation 4**  
**Priority: GREEN**

Budget documents should show a clear distinction between the cost of proposed statutory and discretionary services.

**Why/impact**

Distinction may enhance discussions around savings plans going forward.

**Auditor judgement**

We note that at the time of writing this report, an initiative was underway to introduce new “Outcomes Based Budgeting” processes that more closely tied financial and non-financial data in the budget setting and monitoring process. This may be when stat/ disc split can be made clearer as well.

**Summary findings**

We note that at the time of writing this report, an initiative was underway to introduce new “Outcomes Based Budgeting” processes that more closely tied financial and non-financial data in the budget setting and monitoring process. This may be when stat/ disc split can be made clearer as well.

**Management comment**

There is an established process to identify spending on statutory and discretionary services which is assessed as required, as part of the service prioritisation budget considerations. However, the distinction between statutory and discretionary services is considered to be too simplistic as a basis for decision making regarding savings as the level of statutory service provision can be variable and there are discretionary services that play a key part in demand management for statutory provision. There is a robust system for identifying spending demands which distinguishes between unavoidable spending and spending choices which is considered more appropriate.



The range of recommendations that external auditors can make is explained in Appendix B.



# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

## Monitoring and assessing risk

### Risk Registers Within the Council:

Kent County Council has strong processes in place for monitoring and assessing risk. Risk registers and dashboards are maintained by directorates and divisions and there is a central Corporate Risk Team which engages with service lines on a quarterly basis to help directorates decide which risks to escalate/ de-escalate to the Corporate Risk Register. Directorates are provided with risk monitoring software and the Council has a Risk Management Policy, Strategy and Toolkit which was refreshed in February 2021 to align with latest Treasury Orange Book best practice and to reflect the latest risk landscape.

The Corporate Risk Register is informally reviewed on a regular basis by the CMT and the Corporate Board. Ordinarily, the Corporate Risk Register is reviewed once per annum (normally December) by Cabinet and twice per annum by the Governance and Audit Committee – with relevant sections also being reviewed at least once per annum by the Cabinet Sub-Committees as well. We note that High Needs funding, considered at pages 9 to 12 of this report, appeared as a RED RAG rated risk on copies of the Corporate Risk Register that we reviewed both for December 2020 and December 2021.

The Corporate Risk Register shows Summary Profiles for around 25 top risks at any one time. The Summary Profiles show RAG ratings, Risk Title, Current Risk, Target Risk and Direction of Travel. For most live risks, papers to Cabinet reviewed during our audit also showed Source & Cause; Consequence; Owner; Responsible Cabinet Member; Current and Residual Likelihood and Impacts; and detailed lists of Controls and Control Owners. For the risk registers we reviewed, there were some instances of Summary Profiles not being supported by this more detailed analysis and an Improvement Recommendation has been noted that gaps should be filled or explained (**Improvement Recommendation 5, page 27**).

For 2020-21, in the wake of the Covid-19 pandemic, processes for reporting risk to Cabinet and Those Charged with Governance were significantly increased. A revised and expanded Corporate Risk Register was presented to Cabinet in June 2020. A Winter Risks Update was presented to Cabinet in September 2020 – outlining not only Covid-19 risks but also the County-specific risks of the Brexit transition period ending and risks around Winter Weather and Winter Influenza. An additional Covid-19 risks update was also provided to the Cabinet in March 2021. The approach to risk reporting is therefore proactive and agile.

### Internal Audit Services Within the Council:

The Council has an effective Internal Audit Service. An external Quality Assessment reported in April 2021 that the service's standard "generally conforms" with Public Sector Internal Audit Standards. We note that even in the wake of Covid-19, the Head of Internal Audit (HIA) had provided enough audit coverage of the Council's core systems to be able to provide Adequate Assurance over the Council's corporate governance, risk management and internal control arrangements. The HIA's Annual Report included assessments of the internal audit service itself against key performance indicators agreed with the Council for the service. The Internal Audit team has a commercial aspect and provides internal audit services for a variety of other public and voluntary sector organisations in Kent, including Kent County Council's subsidiaries.

# Governance

Resourcing has been an issue for Kent’s Internal Audit team. The Internal Audit and Counter Fraud Plan for 2020-21 showed 2,936 man-days needed to deliver the 2020-21 County Council programme of work and a 200-day shortfall against this requirement. Temporary staffing solutions were used in 2020-21 but we note that for 2021-22, a restructuring exercise is now ongoing within the Internal Audit Service – including creating and filling new posts and upskilling the team. At the time of writing our report, the team consisted of 28 staff and recent recruitments were felt to have bridged the gaps identified for 2020-21. Wider trends in the UK labour market point to ongoing skills shortage in the wider economy and retaining skilled audit staff may prove just as important as recruiting them. We will revisit adequacy of resourcing Internal Audit as part of our VFM work for 2021-22

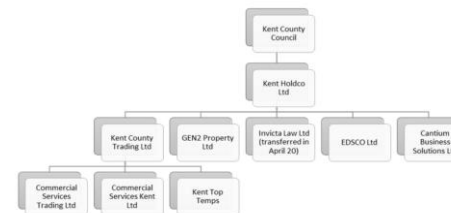
## Monitoring and Assessing Risk in Companies

As Figure 3 shows, Kent County Council has interests in companies that are classified as subsidiaries or joint ventures and for which the Council prepares Group Accounts. Assets and liabilities and commitments within the companies were not material to the Kent County Council Group in 2020-21, both when considered individually or collectively. The financial risk the companies might have exposed the Group to in 2020-21 could have been considered limited in this regard. In view of the long series of Local Government Best Value and Public Interest reports in recent years around Local Authorities operating through subsidiaries, though, the effectiveness of the Council’s risk management and governance processes for the companies is still an area we have considered.

In October 2020, Kent County Council’s Annual Governance Statement for 2019-20 listed “Review of Company Governance and Audit Arrangements” as an Identified Action for 2020-21. In March 2021, the Council delineated oversight responsibilities – strengthening and clarifying responsibilities for the Holding Company to ensure that Annual Governance Statement returns are made; the Council’s Policy and Resources Committee to oversee governance and commissioning and to pre consider key decisions; and the Council’s Governance and Audit Committee to continue with financial performance, scrutiny and assurance oversight. Kent County Council remains mindful of lessons learnt from other Authorities operating through subsidiaries – and the Governance and Audit Committee received details of reports in the public domain in both January and April 2021.

**Figure 3: Subsidiaries and Joint Ventures disclosed in the Kent County Council Statement of Accounts for 2020-21**

Kent Holdco Ltd	100% Subsidiary	Consolidated
Kent County Trading Ltd (Holding)	100% Subsidiary	Consolidated
Includes:	100% Subsidiary	Consolidated
Commercial Services Kent Ltd	100% Subsidiary	Consolidated
Commercial Services Trading Ltd	100% Subsidiary	Consolidated
Kent Top Temps Ltd	100% Subsidiary	Consolidated
CES Holdings Ltd	100% Subsidiary	Consolidated
Hampshire & Kent Commercial Services LLP	Joint Venture	Consolidated
Luton & Kent Commercial Services LLP	Joint Venture	Consolidated
Cantium Business Solutions Ltd	100% Subsidiary	Consolidated
EDSECO Ltd (trading as The Education People)	100% Subsidiary	Consolidated
Invicta Law Ltd	100% Subsidiary	Consolidated
Gen2 Property Ltd	100% Subsidiary	Consolidated



# Governance

Detailed risk management and governance processes for Kent companies in place for 2020-21 included:

- Holding Company providing the Audit and Risk Committee function for all the other subsidiaries. The Kent County Council's Director of Risk sitting as a Member of the Holding Company Audit and Risk Committee;
- The Council currently providing Internal Audit services to all the companies and retaining rights of access to Internal Audit findings if another provider is engaged;
- All subsidiaries being required to prepare Annual Governance Statements for the Holding Company;
- Monthly financial returns from the companies to the Council's s151 Officer to review outturn against budget; and
- Quarterly meetings of a Kent County Council Shareholder Board to consider the performance of the companies and determine decisions required under reserved matters.

No specific concerns around the companies have been identified for our 2020-21 audit. However, we note that most were opened as trading companies, for commercial gain and that the operating environment is changing. As indicated later in this report, commissioning through companies may increase under the Council's Strategic Reset Programme if savings can be achieved. On the other hand, as Kent emerges from the Covid-19 pandemic and Brexit transition and labour and supply markets start to change, companies may become less profitable and the Council may start to explore alternative delivery models.

Our audit for 2021-22 will consider in detail the performance of the companies after the pandemic; corporate risks to the Council and ongoing risk and governance management; and the effectiveness of commissioning through companies under the Strategic Reset Programme.

## Internal Audit of Schools

Kent County Council commissions Maintained Schools compliance audits from the wholly owned subsidiary EDSECO. The Council's Governance and Audit Committee receives an annual report from the Council's Director of Children, Young People and Education summarizing the Schools Financial Services (SFS) compliance programme and other activities to enable the s151 Officer to certify that there is a system of audit for schools giving adequate assurance over financial management standards.

The report for 2019-20 was received by the Council's Governance and Audit Committee in January 2021, although it noted that the Department for Education had accepted reduced data collection activities in the light of Covid-19. The deadline for 2020-21 compliance statements was delayed by the Department for Education until the end of March 2022 to reflect the impact of Covid-19. At the time of writing our report, the Council's Governance and Audit Committee had not yet received an update on the SFS compliance programme for 2020-21.

Whilst the delay to reporting for 2020-21 is not out of line with Departmental requirements for that year, it does mean that for the second year running, audit assurance has either been based on less data and/ or delayed. As schools emerge from the pandemic, the Governance and Audit Committee may wish to consider the completeness of assurance it receives on Schools. Under existing arrangements, only one report per annum is received - periodic updates are not provided to the Committee through the year. Given that there has been two years of disruption, this is something the Committee may wish to explore going forward.

# Governance

## Budget Setting Process and Budgetary Control

The process of setting the Budget for 2020-21 followed a detailed formal timetable that started with information gathering as early as May 2019. Multiple rounds of consultation were included within the timetable (for example, resident consultations were held in September 2019) and refreshes were factored in for Savings Plans to be put forward and challenged; Pay Bargaining; Capital Discussions; Strategic Planning updates; the Final Settlement from Government; and Scrutiny. As previously noted in this report, the Budget was re-issued in September 2020 to reflect the impacts of Covid-19 – showing that the process could be adapted as Government requirements and circumstances changed.

Budgetary control through the year at Kent County Council is primarily driven at directorate level. There is a monthly process for corporate directors and their finance business partners to review variances within the directorates and report to the relevant Cabinet Member for discussion at the Cabinet Members Meeting (and from there, at Cabinet). In 2020-21, Cabinet received copies of monthly Budget Monitor reports three times in 2020-21 (September, December and March) and received the 2020-21 Budget Outturn report in June 2021. The budget monitor reports were supported by comprehensive information packs – including at various times, for example, reports on Treasury management, Council Tax and NNDR, Schools Delegated Budgets, Treasury and Capital Outturn reports, and Savings Progress Against Targets.

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## Making properly informed decisions

### Making decisions within the Council:

The Council's Constitution requires that all decisions either with a minimum value of £1M or affecting more than one service line are required to be made by Cabinet – meaning discussions around those decisions will be in the public domain. Cabinet discharges the Leader's Executive functions and is supported by five Cabinet Committees, which make recommendations for the individual service lines they cover. CMT is the most senior officer group within the Council. The Council's website includes the Constitution and a clear structure chart of the senior management team.

The Annual Governance Statements for both 2019-20 and 2020-21 referred to there also being, within the Council, "informal" governance arrangements. The informal arrangements principally comprise a Cabinet Members Group meeting on a monthly basis and the Corporate Management

Board (Cabinet Members and CMT) meeting also meeting on a monthly basis. Neither the Cabinet Members Group nor the Corporate Management Board have decision-making powers under the Council's Constitution and their meetings are not recorded publicly. Findings from across our work indicate, however, that these groups do play a role in discussion leading up to decision. In periods of rapid response (such as pandemic), this increases the risk of non-statutory decision making. The risk is also increased where officers and Cabinet Members with delegated decision-making powers attend the informal meetings, as does happen.

The Annual Governance Statement for 2019-20 made two recommendations around decision making:

1. Review of formal governance to increase controls at .... decision stage to ensure mandatory compliance with governance; and
2. Creation of a mechanism for recording officer decisions taken under delegation for scrutiny by members.

The Annual Governance Statement for 2020-21 noted that these Actions had so far not been implemented. The Statement noted that during 2020-21, the Monitoring Officer had had to "intervene and seek remedial actions from Officers where decisions were at risk of not being taken lawfully, reasonably and proportionately" and made a series of new recommendations:

1. Review of Informal Governance Structures and composition and support for Informal Member Groups;
2. Review of Officer Decision-Making under delegation;
3. New approval processes and guidance ahead of decision-making; and
4. Consequences for non-compliance.

During our audit we were not informed of any instances of non-statutory decision making. The requirement that all decisions at or above £1M are made through Cabinet provides significant protection to the Council's processes. Nevertheless, as Annual Governance Statements have raised decision-making processes as areas for improvement two years running, it is important that the identified Actions are implemented. We have noted an Improvement Recommendation around this point (**Improvement Recommendation 6, page 28**).

# Governance

## Making decisions within the Pension Fund:

Kent County Council administers a high value, high performing Pension Fund. The gross Fair Value of the Fund's assets was £2,679.6M on 31 March 2019; £2,483.7M on 31 March 2020; and £3,211.7M on 31 March 2021. For the Pension, the Superannuation Fund Committee exercises the powers and duties of the Kent County Council (KCC) in relation to its functions as the Administering Authority. The Superannuation Fund Committee is responsible for setting investment strategy, appointing professional fund managers, managing risk and carrying out regular reviews and monitoring of investments.

Kent County Council's Internal Audit Section conducts risk-based audits on the management of risk in the Pension Fund. Governance arrangements also include a Local Pension Board, which assists the Scheme Manager to ensure the effective and efficient governance and administration of the Scheme. The Board met twice in 2020-21 and considered the Pension Fund's Business Plan, Risk Register and Internal and External Audit findings.

During 2019-20, the Fund had written-off or potentially lost an investment around £237M when trading was suspended for shares the Fund held in the Woodford Equity Income Fund. Information about Woodford had been in the public domain in the run up to trading being suspended and the Fund's Superannuation Committee had been in the process of starting to sell shares when trading was suspended. Capital distributions from liquidators to investors started as early as January 2020 and the Pension Fund anticipates that final losses net of distributions received will be valued at around £60M.

Internal Audit undertook a Lessons Learnt review on Pension Fund Governance. In December 2019 Internal Audit reported 14 Key Issues, including around there having been no independent investment advice on Woodford investments, despite the "unwritten convention" that such advice should be taken. The report concluded that, in December 2019, Pension Fund controls were ineffective and that only limited assurance could be given. However, the report also noted that prospects for improvement were "GOOD" and set out a 16 Point set of Action Plans.

During 2020-21, Internal Audit conducted a follow-up review of the Action Plan implementation. The Council also engaged Barnett Waddingham to conduct an independent review of Pension Fund Governance. The Internal Audit follow-up was published in January 2021 and noted that 1 recommendation from 2019 had been implemented in full but that the implementation of other recommendations had been delayed while Barnett Waddingham conducted their review.

Barnet Waddingham's external review of Pension Fund Governance commenced on 23<sup>rd</sup> October 2020 and was scheduled to conclude by the end of 2020-21. Timescales for the review were delayed during the Covid-19 pandemic and Barnett Waddingham issued their final report in October 2021. Barnett Waddingham's review covered areas of the original Internal Audit recommendations, although it did not explicitly track them. In total, 108 recommendations were made in the final report from Barnett Waddingham. Whilst the report recognized that many would be "quick to implement", we note that recommendations included widening representation on the Superannuation Committee; ceasing dual role holding between the Superannuation Committee and the Pension Board; and sharpening processes around decision-making.

The engagements since 2019 of two Internal Audit reviews and an external Barnett Waddingham review of Pension Fund governance show that the Council has a clear appetite to address weaknesses which may have affected the timing of decision-making around Woodford investments in 2019. To fully benefit from the reviews, it will be essential now that the recommendations made by Barnett Waddingham are implemented. Given the number of recommendations, tiering or ranking them will help with prioritization. Formally cross checking for completeness with Internal Audit recommendations in 2019 and 2021 will ensure completeness of responses. An improvement recommendation has been raised (**Improvement Recommendation 7, page 29**) around this point and we will revisit progress as part of our VFM audit for 2021-22.

# Governance

## Monitoring and ensuring appropriate standards

The Code of Corporate Governance for Members is included within Kent County Council's Constitution. The Kent Code for staff is included within employee's conditions of service. The Council has a comprehensive suite of policies and guides around anti-fraud, anti-bribery, gifts and hospitality, declarations of interest and whistle-blowing. The external auditor Audit Findings Report for 2020-21 did note two instances of the Council not being informed about interests. The instances involved one Councillor and one member of the CMT. Neither instance was seen as having any bearing on the wider control environment. During our review of anti-fraud policies, we noted some minor instances of documents on the Council's website not being latest versions. However, we are aware that a series of the anti-fraud and bribery policies were updated in January 2022, and we anticipate that the website will also be updated in due course.

The Governance and Audit Committee met three times during 2020-21 (July 2020, October 2020 and January 2021) and considered a broad range of reports and risks. We note that papers to the Committee shortly after the end of 2020-21 flagged planned training programmes for members and planned updates to the Committee's Terms of Reference and role with respect to companies. We will consider this further for 2021-22.

## Conclusion

The Council had a comprehensive system in place during 2020-21 for monitoring and assessing risk through its own risk registers and it had an effective in-house Internal Audit function. Comprehensive processes for budget setting; budgetary control; and maintaining Standards were also in place. Internal Audit skills retention and resourcing; governance over the strategic focus and commercial role of companies; and the completeness of assurance over financial control at maintained schools are all areas we will review in more detail in 2021-22.

Whilst we saw no evidence of non-statutory decision-making in 2020-21, we noted that Actions around informal governance at the Council and weaknesses in decision-making processes within the Pension Fund have been raised two years running by other auditors and consultants. We have recommended that these Actions are implemented and we will revisit decision-making in 2021-22.



# Improvement recommendation



## Governance

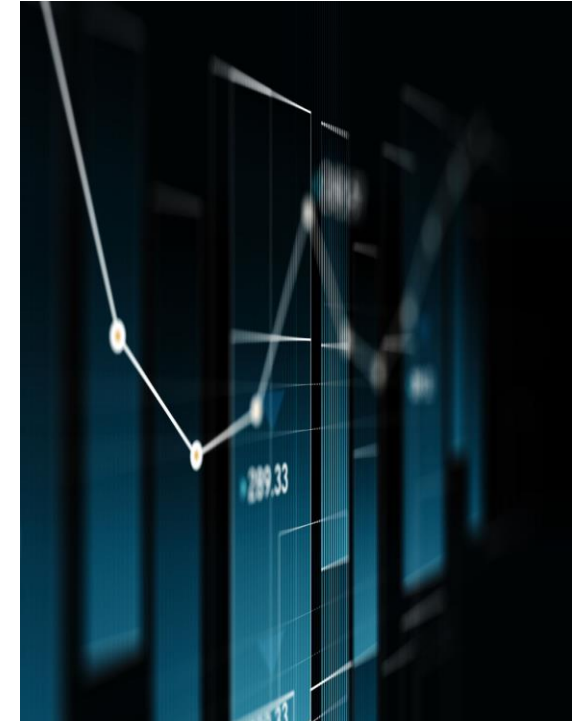
**Improvement Recommendation 5**  
**Priority: GREEN** The Corporate Risk Register shows Summary Profiles which for most but not all risks are supported by more detailed analysis. Gaps in detailed analysis should be filled or explained.

**Why/impact** The Corporate Risk Register shows Summary Profiles for around 25 top risks at any one time. The Summary Profiles show RAG ratings, Risk Title, Current Risk, Target Risk and Direction of Travel. For most live risks, papers to Cabinet reviewed during our audit also showed Source & cause; Consequence; Owner; Responsible Cabinet Member; Current and Residual Likelihood and Impacts; and detailed lists of Controls and Control Owners. For the risk registers we reviewed, there were some instances of Summary Profiles not being supported by this more detailed analysis.

**Auditor judgement** Sound processes for monitoring and reporting on risk are in place but where there are gaps in detailed analysis, reasons are not always made clear.

**Summary findings** Corporate Risk Register reporting to Cabinet is not always consistent in presentation. Some Summary Profiles are supported by detailed analysis and others are not.

**Management comment** Any risks not supported by detailed analysis in the register are accompanied by explanations in covering reports. The dynamic nature of the risks being faced by the Council mean that different levels of detail are available at any one time.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Governance

**Improvement Recommendation 6**  
**Priority: AMBER**

Actions should be taken around informal governance and decision-making:

1. Review of formal governance to increase controls at decision stage;
2. Creation of a mechanism for recording officer decisions taken under delegation;
3. Review of Informal Governance Structures and composition;
4. Review of Officer Decision-Making under delegation;
5. New approval processes and guidance ahead of decision-making; and
6. Consequences for non-compliance.

<b>Why/impact</b>	Annual Governance Statements have raised decision-making processes as areas for improvement two years running, it is important that the identified Actions are implemented.
<b>Auditor judgement</b>	Although we did not observe and were not informed of any instances of non-statutory decision-making during our audit, there remains an increased risk that non-statutory decision making could occur under current arrangements.
<b>Summary findings</b>	Processes around informal governance and decision making should be documented, inventoried and formalised.
<b>Management comment</b>	Our approach to the AGS is to contemporaneously record the issues and operating environment of the Council. In doing so, we have adopted an approach in recent years that properly and explicitly reflects the risks as they are identified and worked on in a transparent way. The risk around informal governance as identified is something that has been identified by our own processes and we are already tracking this with actions that are flowing through in the current financial year and next. We feel it is important to take account of the context and the fact that the actions identified and the steps to be taken are all things that are in current planned activity and have been identified by the statutory officers through the AGS. These are iterative things – they aren't simply once and done and this can be seen through 2021-22 and 2022-23. We are very honest in our AGS and wouldn't want to see this activity drive a more restricted approach to our AGS.



The range of recommendations that external auditors can make is explained in Appendix B.



# Improvement recommendation



## Governance

**Improvement Recommendation 7**  
**Priority: AMBER**

Barnett Waddingham Pension Fund Governance recommendations should be tiered or ranked to help with prioritisation and cross checked against Internal Audit recommendations from 2019 and 2021 to ensure completeness of response. It will be essential then that recommendations are implemented promptly.

**Why/impact**

Actions to improve governance over decision-making within the Pension Fund were reported by Internal Audit in 2019. Internal Audit reported again in January 2021 and Barnett Waddingham made recommendations in October 2021.

**Auditor judgement**

The engagement since 2019 of two Internal Audit reviews and an external Barnett Waddingham review of Pension Fund governance shows a clear appetite to address weaknesses which may have affected the timing of decision-making around Woodford investments in 2019. To fully benefit from the reviews, it will be essential now that the recommendations made by Barnett Waddingham are implemented and, for completeness, cross-checked against Internal Audit recommendations.

**Summary findings**

Open Actions around decision-making in the Pension Fund should be implemented at the earliest opportunity.

**Management comment**

A number of recommendations considered the highest priority have already been implemented. The new Head of Pensions and Treasury is overseeing the implementation of the remaining recommendations and a dedicated fixed term post has been appointed to deliver the actions necessary.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Performance review, monitoring and assessment

Kent County Council has strong processes in place for monitoring and assessing performance. Performance dashboards are maintained at directorate level. Corporate Key Performance Indicators (KPIs) are set by Cabinet and CMT in liaison with the Performance team and directorates and the Chief Analyst. Corporate KPIs are agreed annually and agreed with the CMT and the Corporate Management Board and then reported against in Quarterly Performance Reports to Cabinet.

The Quarterly Performance Reports show around 35 Indicators, categorized across Customer Services, Economic Development & Communities, Environment and Transport, Children, Young People and Education, Adult Social Care and Public Health. For each indicator, the reports show:

- RAG rating for current performance;
- Current, Target and Previous Performance,
- Direction of travel,
- Narrative and text showing basis of supporting evidence.

The Council has an in-house Chief Analyst and the indicators are supported by comprehensive benchmarking. As well as being presented to Cabinet four times in 2020-21, the Quarterly Performance Reports (QPRs) were discussed at CMT and at Cabinet Members Meeting groups and at Corporate Management Board meetings during the year. The Chief Analyst presented at CMT meetings to facilitate detailed discussion around benchmark data.

Performance Indicators in the QPRs are operationally focused and designed to flag where operational standards are falling behind target. For the four 2020-21 Quarterly Reports, there were three to four RED RAG rated KPIs in each report – with the indicator for “% of EHCPs issued within 20 weeks – rolling 12 months” being RED RAG rated in all four quarters. Observations around the need to revisit arrangements around EHCPs, and therefore associated Corporate KPIs, have been noted earlier in this report.

For 2020-21, there was no direct link between financial data supporting budgets and monthly budget monitoring and the performance data supporting Quarterly Corporate KPI reporting. Nor did Internal Audit have any direct oversight of performance indicator reporting. At the time of writing this report, a project to more closely integrate financial and performance data for “Outcomes Based Budgeting” was being developed. We will revisit progress with this project as part of our value for money audit in 2021-22.

# Improving economy, efficiency and effectiveness

## Service Evaluation

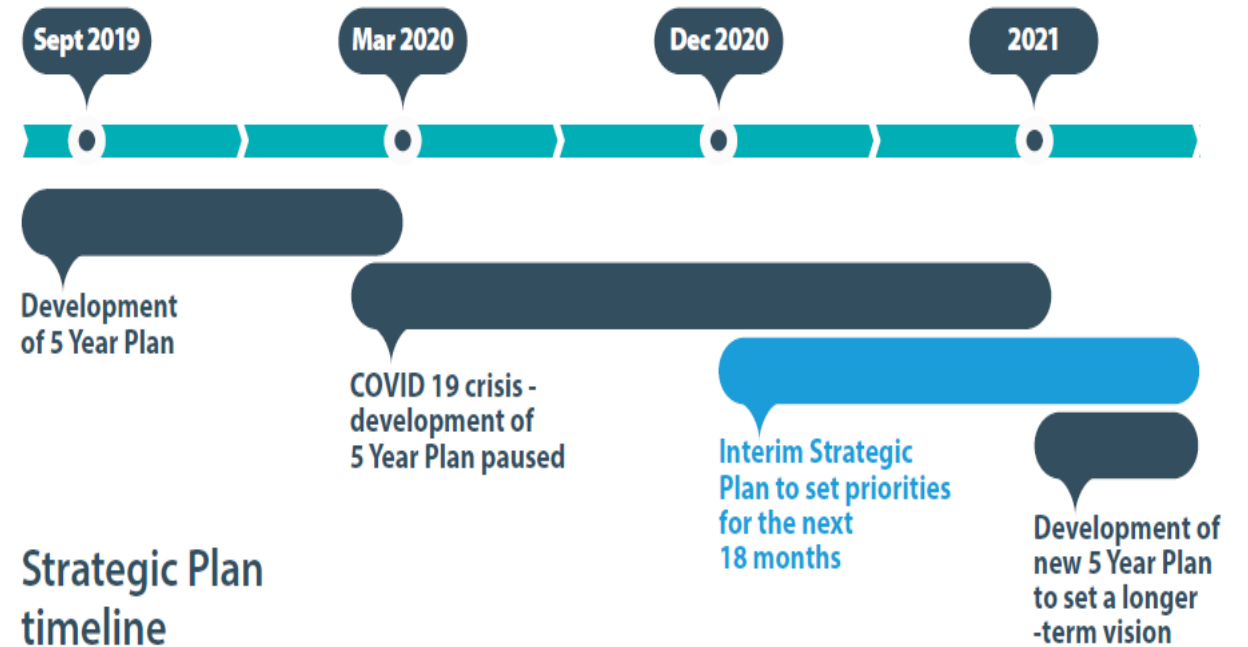
Kent County Council showed itself to be highly agile in its evaluation of services to provide in 2020-21. March 2020 had been scheduled to see the launch of a new Five Year Strategic Plan for Kent. As Figure 4 indicates, the March 2020 Council meeting at which the Strategic Plan would have been launched was cancelled as the UK went into lockdown. A rapid assessment was made that the impacts of the pandemic were likely to be so profound that new Strategic Planning would be required after recovery. An Interim Strategic Plan (“Setting the Course”) was issued in December 2020 to provide direction for 18 months, until a new Five Year Plan could be developed (this development is in process now, early 2022).

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The Interim Strategic Plan set out five main challenges for the coming period (Financial, Economic, Demand, Partnership and Environmental) and a series of Priority Actions against each.

The Priority Actions were not inconsistent with Corporate KPIs already being reported on and evaluation of services provided under the new Plan continued in 2020-21 to be primarily through Quarterly Performance Reports to Cabinet and detailed performance scrutiny for their relevant service lines by the five Cabinet Committees.

Figure 4: Strategic Plan Timeline, Source: Kent County Council



# Improving economy, efficiency and effectiveness



## Partnership working

Kent County Council has a strong tradition of working effectively with partners. The County has been exposed in recent years to flooding; coastal erosion; Brexit transition impacts on roads to and from Channel crossings; high asylum seeker arrival rates; and the need to maintain emergency plans for radiation events at Dungeness. The Council is a “Category 1 Responder Member” of the Kent Resilience Forum – working with police, fire, NHS and other key civil agencies to manage community risks set out in a Community Risk Register. This put the Council in a strong position for responding proactively to the Covid-19 pandemic, although we note that the Community Risk Register (last updated in 2016) had not previously included pandemic. The Council should promote an update to the Community Risk Register to now capture disease and pandemic. An Improvement Recommendation has been made around this point (Improvement Recommendation 8, page 34).

As already shown in other sections of this report, Kent has a wide variety of different types of partnership arrangement. There are co-operative partnerships, such as the Resilience Forum; legal partnerships with subsidiaries and joint ventures; contractual partnerships, for example with care providers and schools; and other networking partnerships and forums such as the Kent Community Services Foundation Trust, Kent Leaders Group and Kent Joint CEO forum. As the pandemic emergency subsides, the Council may wish to consider inventorising partnerships so that legal status and commitments can be easily checked.

Since July 2020, the Council has been discussing “Strategic Reset”, noting that there are vulnerabilities in the existing supplier and partnership base and that the commercial strategic role of companies may be strengthened in the future. 2022-23 and beyond may see some changes to services currently delivered through commercial subsidiaries and other delivery models. Discussions around delivery models may be more effective if the status of existing partnership arrangements can be clearly mapped first. An Improvement Recommendation has been made around this point (Improvement Recommendation 9, page 35).

## Commissioning and Procurement

Kent County Council spends around £1BN per annum through commissioning of contracts, with some £400M of this expenditure being on Adult Social Care contracts every year. The Council has a Strategic Commissioning Team with just under 200 employees, headed up by the Strategic Commissioner” and responsible for managing contracts as well as setting them up.

# Governance

The Council does not have a standalone “Procurement Policy” document but does have a staff intranet section called ‘Spending the Council’s Money’ which sets out the mandatory rules and processes that must be complied with under the Constitution, when spending money on behalf of the Council. This applies to all elected member members and those working for, or on behalf of, the Council (including contractors and third parties undertaking procurements on the Council’s behalf).

To support ‘Spending the Council’s Money’, the Council also has, on its website, the “Commissioning Framework 2014”. The Commissioning Framework sets out the Council’s ten principles of commissioning and how they apply throughout the Commissioning lifecycle.

Page 71 Actual and prospective suppliers are given clear information about opportunities to do business with the Council and rules/ regulations/ processes in place are listed on the Council’s website under “[Doing business with Kent County Council](#)”. The Strategic Commissioning team maintains a central register of all contracts and new contracts valued at £1M or higher are required to go to Cabinet for decision.

In July 2020, the “Strategic Reset Programme” paper to the County Council argued that COVID-19 had exposed fragility, fragmentation and vulnerability in some of the traditional supplier markets the Council commissioned from, particularly for commissioned services delivered by the voluntary, community and social enterprise sector. The paper argued that options would be explored going forward for working more strategically with partners and, in cases, strengthening strategic commercialisation of the Council’s subsidiary companies.

In July 2020, the Council also published a Social Value Toolkit “[to provide Kent County Council officers with clear and comprehensive advice and guidance on maximising social value in commissioning](#)”. The Social Value criteria listed in it were Employment; Economy;

Community Development; “Good Employer”; and “Green & Sustainable”. The toolkit provided Council officers with guidance on:

- Analysing need and market
- Engagement and tendering
- Evaluating
- Agreeing
- Managing the contract
- Reviewing and lessons learnt.

Since the end of 2020-21, the Council has invested in a new software license to set up and run a Social Value Platform. The platform will provide an “auction forum” where suppliers can bid for social value opportunities, for example to include volunteering days or pro bono legal and financial skills for local Voluntary organisations within any procurement or commissioning bids and tenders they are submitting. The platform will also allow Council officers to monitor delivery of social value by suppliers once contracts have been awarded.

At the time of writing our report, no firm structural changes had yet been made to arrangements around partners, commissioning, procurement and the Council’s companies. Social Value criteria had not yet been approved by CMT and staff training for the new Social Value platform was still ongoing. The Commissioning Framework documents had also not been updated to reflect the new Social Value criteria or any other proposed structural changes. We will revisit progress with the Strategic Reset Programme, Commissioning, Procurement and Social Value as part of our 2021-22 value for money audit.

## Conclusion

Kent County Council had effective arrangements in 2020-21 for monitoring performance, evaluating services, working with partners and commissioning and procurement. For 2020-21, we have noted two Improvement Recommendations. We note that the Strategic Reset Programme may bring wider changes to the current arrangements in future years.

# Improvement recommendation



Improving economy, efficiency and effectiveness

<b>Improvement Recommendation 8</b> <b>Priority: GREEN</b>	<p>The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and pandemic.</p>
<b>Why/impact</b>	<p>The Council is a “Category 1 Responder Member” of the Kent Resilience Forum – working with police, fire, NHS and other key civil agencies to manage community risks set out in a Community Risk Register. This put the Council in a strong position for responding proactively to the Covid-19 pandemic, but that the risk register (last updated in 2016) does not currently include pandemic.</p>
<b>Auditor judgement</b>	<p>The Community Risk Register is an effective tool for partnership working but should be updated to reflect current risks.</p>
<b>Summary findings</b>	<p>The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and pandemic.</p>
<b>Management comment</b>	<p>The KRF risk registers are regularly reviewed and updated to ensure they remain fit for purpose. The Community Risk Register is part of that review and consideration will be given to the recommendation made.</p>



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendation



## Improving economy, efficiency and effectiveness

**Improvement Recommendation 9**  
**Priority: GREEN**

The Council should consider inventorising partnerships so that legal status and commitments can be easily checked.

**Why/impact**

The Kent has a wide variety of different types of partnership arrangement. 2022-23 and beyond may see some changes to services currently delivered through commercial subsidiaries – discussions around delivery models may be more effective if the status of existing partnership arrangements can be clearly mapped first.

**Auditor judgement**

Kent County Council works with partners under a wide variety of different arrangements, making the partnership landscape difficult to map.

**Summary findings**

Inventorising or mapping partnership arrangements would make it easier to assess the effectiveness of different delivery models.

**Management comment**

Consideration will be given to inventorising partnership arrangements.



The range of recommendations that external auditors can make is explained in Appendix B.

# COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

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## Financial sustainability

Kent County Council showed itself to be very agile in its response to the Covid-19 pandemic. The Council amended both its Strategic Business Planning and its annual budget for 2020-21 to reflect the changed situation after the pandemic started.

Working with Strategic Commissioning, the Council's Finance Team set up COVID/COMF logs and new account segments to ensure that relevant Covid-19 expenditure could be identified, monitored and reported on – internally and on central government returns.

A June 2021 report to Cabinet on Revenue and Capital Budget Outturn for 2020-21 recorded that the (provisional) total Revenue spend on Covid-19 for the year was £58.6M, with £25M having been on Adult Social Care & Health; £10.5M on having been on Children, Young People & Education; and £15M having been spent by the Growth, Environment and Transport directorate. These costs were off-set by Emergency Grant Allocations. Additional Emergency Grant Allocations of some £28.8M were rolled forward for spend in 2021-22 or later periods.

## Governance

Kent County Council received a comprehensive paper on 11th March 2021 summarising the key pandemic responses of 2020-21. This highlighted, for example, that 80% of staff had been supported in working from home; virtual decision-making processes had been introduced for Committees; and the Kent Resilience Forum Strategic Command Structures activated in March 2020 (shown in Figure 5).

For Kent, disruption was heightened when France temporarily closed its borders with the UK in December 2020, meaning that the work of the Resilience Forum included overseeing road and rail disruption as well as the health and economic disruption more typically associated with the pandemic.

From our work we saw no evidence of the internal control environment being weakened and we note that days were not diverted from Internal Audit resourcing to work on Covid-19 response. As shown on page 18 of this report, processes for reporting risk to Cabinet and Those Charged with Governance were significantly increased during 2020-21. A revised and expanded Corporate Risk Register was presented to Cabinet in June 2020. A Winter Risks Update was presented September 2020 and an additional Covid-19 risks update was also provided to the Cabinet in March 2021.

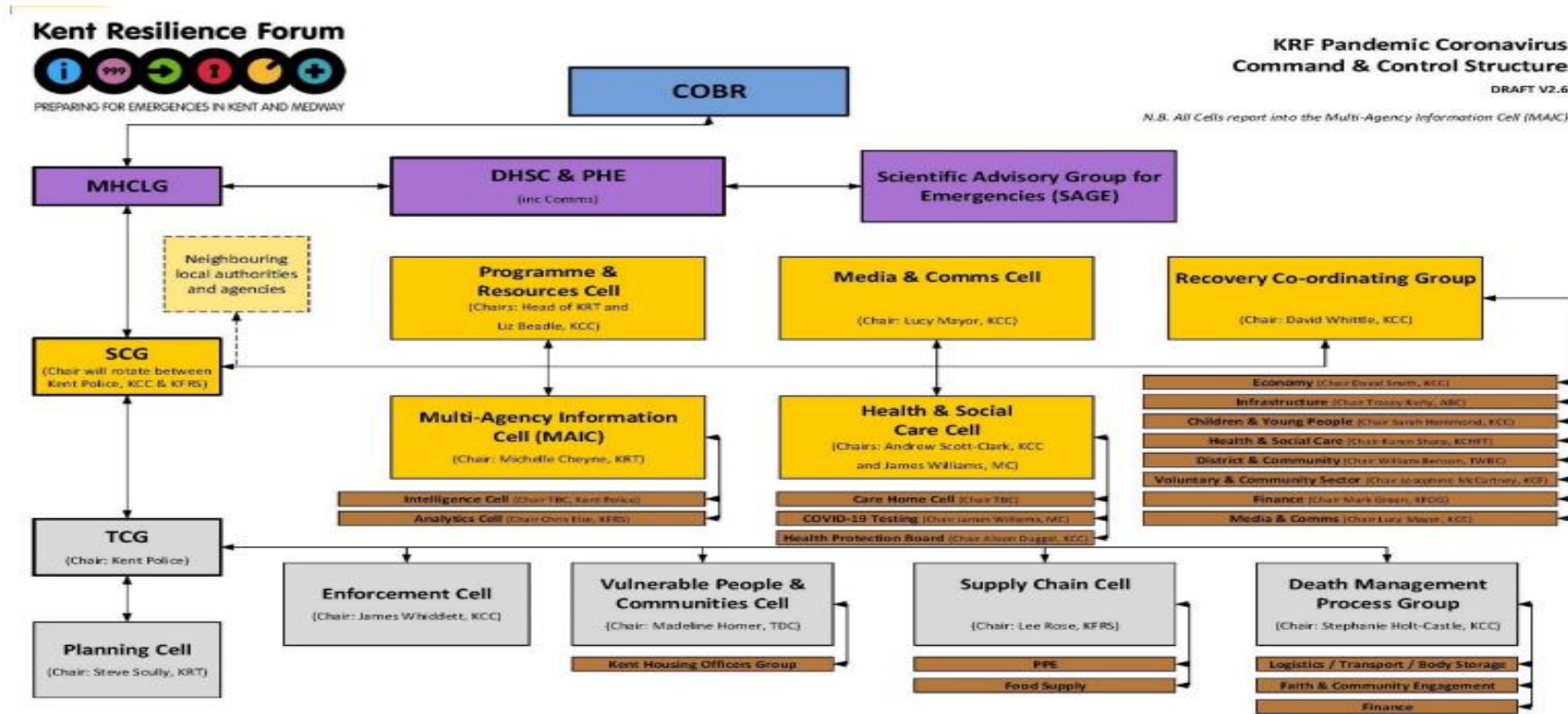
## Improving Economy, Efficiency and Effectiveness

Kent County Council had strong processes in place for working with other partners before the Covid-19 pandemic and The 11<sup>th</sup> March 2021 paper to County Council shows that 2020-21 Covid-19 responses involved continued close working with multiple agencies. In particular, we note that Kent County Council mandated Kent Commercial Services (KCS) Ltd to source PPE to help address the urgent PPE needs of all providers in Kent. Over 4.4 million items of PPE, including 800,000 face masks, were disbursed through this arrangement. As the Council emerges from the pandemic, the Strategic Reset Programme looks likely to build on this success, and the strategic, commercial role of Kent's subsidiaries is expected to come under scrutiny from 2021-22 onwards, as we have noted earlier in this report.



# COVID-19 arrangements

Figure 5: Kent Resilience Forum Pandemic Coronavirus Command and Control Structure, Source: Kent County Council



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# Opinion on the financial statements



## Audit opinion on the financial statements

We have completed our audit of the Council's financial statements and issued an unqualified audit opinion on 13 December following the Governance and Audit Committee meeting on 30 November 2021.

## Other opinion/key findings

We have not identified any significant unadjusted findings in relation to other information produced by the Council, including the Narrative Report, Annual Governance Statement or the Pension Fund financial statements.

## Issues arising from the accounts

All adjusted and unadjusted misstatements identified for the Council's 2020/21 financial statements are disclosed in the 20/21 Audit Findings Report which was presented to the Governance and Audit Committee on 30 November 2021.

## Preparation of the accounts

The Council's single entity draft financial statements alongside a full suite of working papers were submitted for audit in early July in line with agreed timetables. As in previous years, the quality of the financial statements and supporting working papers continues to be high evidenced by the small number of presentation and disclosure issues identified during our audit. Your corporate finance team engages well with the audit process and responds promptly to our audit queries.

The group financial statements were submitted in early October and key working papers to support the consolidation remained outstanding until November. For 2021-22, management will need to work with key stakeholders to ensure the group financial statements are prepared at the same time as the main financial statements.

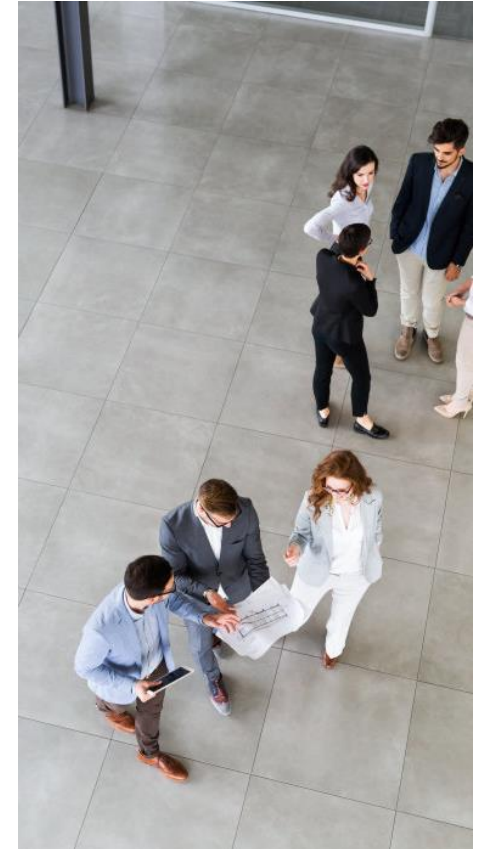
## Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

This work has not yet commenced as the group audit instructions are yet to be issued by the NAO. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.



# Appendices

# Appendix A - Responsibilities of the Council



## Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

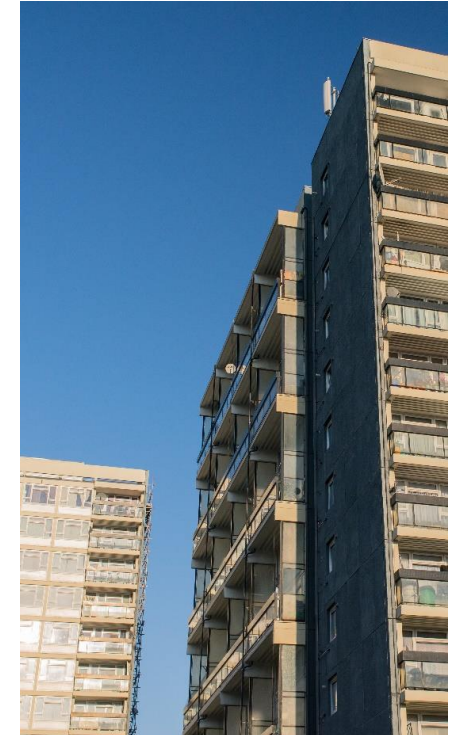
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure 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.



# Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	FS p. 15 - 16
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements..	Yes	FS p. 17 - 20 Governance p. 27 - 29 3Es p. 34 -35.



By: Benjamin Watts – General Counsel  
To: Governance and Audit Committee – 27 April 2022  
Subject: **External Audit Progress Report and Public Sector Update**  
Classification: Unrestricted

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**Summary:** This report from the External Auditors, Grant Thornton UK LLP is presented to the Committee for its consideration.

**FOR ASSURANCE**

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**Recommendations**

- Members of the Governance and Audit Committee are asked to note the current progress on external audit work for assurance.

**Andrew Tait**  
**Senior Democratic Services Officer**  
**03000 416749**

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# Kent County Council Audit Progress Report and Sector Update

**Year ending 31 March 2022**

27 April 2022

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Sector Update	14

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

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# Introduction

## Your key Grant Thornton team members are:

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

The paper also includes:

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

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

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

# Progress at April 2022

## Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March 2022. We expect to begin our work on your draft financial statements in October.

As part of our initial planning work we have:

- Updated our review of the Authority's control environment
  - Updated our understanding of financial systems
  - Reviewed Internal Audit reports on core financial systems
  - Obtained an understanding of how the Authority makes material estimates for the financial statements
- Documented and undertaken walkthrough tests of the Authority's key financial systems.
- Undertaken early work on emerging accounting issues including the challenges in accounting for Infrastructure assets that have recently emerged in the sector and which will feature as part of the 21/22 audit.

In May we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by March 2023.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

## Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact. Our first report under the new Code is an agenda item on the April Governance and Audit Committee Agenda.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in March 2023.

# Progress at April 2022 (cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certificate work for 2018/19 and the 2019/20 claim is ongoing. There have been delays with the Council's provider arrangements which have delayed the process. Work in relation to the Council's 2020/21 claim was due to take place in early 2022 following receipt of the claim and associated working papers and we are still awaiting supporting data from the Council's contractor before we can complete this work.

### AS19 Assurance Letters to Admitted Bodies auditors

We have provided written assurances to the auditors of admitted bodies to the Pension Fund in accordance with the agreed timescales.

### Meetings

We continue to meet and be in regular correspondence with Finance Officers at both the Council and the Pension Fund. There continues to be good engagement between us and your finance teams during the final accounts audit enabling us to complete work planned.

We also met with your Head of Paid Service in November to discuss the Authority's strategic priorities and plans.

### Audit work plan tracker

Overleaf we have set out progress against the individual procedures planned for our risk assessment visit

## Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority 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. 2021/22 is the fourth year of that contract. Since 2018, 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 and 2019/20 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 Corporate Governance Committee. The final proposed fees for the 2020/21 audit are included within the Progress Report.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit work plan tracker

We have worked closely with management and finance officers this year to support the audit process running smoothly throughout the year and at year end. We have held regular meetings with key finance staff throughout the year where we have discussed work in response to prior year findings as documented in the prior year audit findings report. We have also used these meetings to discuss up and coming issues relating to the Authority and the audit which has also enabled an open and transparent working relationship and assisted with a smoother audit process.

We have outlined below progress to date on risk assessment and early testing in relation to the financial statement audit.

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress	
Page 88	Planning and risk assessment	Planning Inquiries with Management and Those Charged with Governance	We sent a list of planning inquiries to management to inform our planning and risk assessment work. We are currently awaiting responses at the time of drafting this report from management and we have requested that response be provided ahead of the April Governance and Audit Committee to ensure that response are appropriately reviewed by Those Charged with Governance in accordance with ISA 540	Information overdue	TBC	Red – Response from management is significantly delayed
	Planning and risk assessment	Planning Inquiries with internal Audit Function	We sent a list of planning inquiries to internal audit to inform our planning and risk assessment work. We have received a response to our inquiries with no issues identified	We have also reviewed the counter fraud reports to identify whether any cases would be elevated to an extent that it would warrant specific attention for the external audit. Almost all cases of fraud in 21/22 are standard for Councils e.g. blue badge, council tax avoidance and would not be pervasive to the financial statements. We have requested for further information on the ‘provider invoicing internal audit report ‘what was of low assurance. The response is expected by April 22 <sup>nd</sup> , 2022.	Green - none	Green – complete or on track
	Planning and risk assessment	IT General Controls	We have engaged our IT specialists to obtain assurance over IT General Controls. They have been in communication with Authority’s IT function to inform our planning and risk assessment work. We have received substantial information from the Authority’s IT function and our IT specialists are processing that information.	TBC	TBC	Green – on track

## KEY:

**RED** Significant issue identified and/or response from management is significantly delayed

**AMBER** Issue identified and/or response from management is delayed

**GREEN** No issues noted and/or response from management has been received

# Audit work plan tracker (continued)

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Planning and risk assessment	Walkthroughs	<p>The following walkthroughs have been completed:</p> <ul style="list-style-type: none"> <li>Journals</li> </ul> <p>The following walkthroughs are partially completed:</p> <ul style="list-style-type: none"> <li>Pension Liability</li> <li>Property, Plant and Equipment valuation</li> </ul>	<p>PPE valuations: Some process are performed only after year end so the walkthrough can only be conducted once this has been done. We will look to complete this in October</p> <p>Pension Liabilities: Some process are performed only after year end so the walkthrough can only be conducted once this has been done. We will look to complete this in October</p>	Green - none	Green -on track
Planning and risk assessment  Page 89	Business Processes	<p>The following business processes have been completed:</p> <ul style="list-style-type: none"> <li>PPE</li> <li>PFI</li> <li>Income</li> <li>Treasury management</li> <li>Pensions Liability</li> <li>GRNI</li> <li>Manual accruals</li> <li>Schools process</li> <li>Expenditure</li> <li>Commercial Services</li> </ul>	No Issues, all planned business process have been completed.	Green - none	Green - complete
Planning and risk assessment	Planning Inquiries of In-House Legal Counsel	We sent a list of planning inquiries to in-house legal to inform our planning and risk assessment work. We are yet to receive a response from the in-house Legal Counsel.	Information overdue	TBC	Red - Response is significantly delayed
Planning and risk assessment	Going concern	We have received and reviewed management's going concern assessment.	No issues identified	Green - none	Green - complete

## KEY:

**RED** Significant issue identified and/or response from management is significantly delayed

**AMBER** Issue identified and/or response from management is delayed

**GREEN** No issues noted and/or response from management has been received

# Audit work plan tracker (continued)

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Planning and risk assessment	Planning materiality	We have determined planning materiality for both the Trust and the Group in order to inform both our risk assessment and planning as well as our year end approach	No issues identified	Green - none	Green - complete
Planning and risk assessment	Preliminary analytical review	We have completed a preliminary analytical review of Authority's financial information by comparing 21/22 budget (as at December 2021) with the audited outturn position for 20/21, and the forecasted outturn for 21/22. In addition, we have analysed on a directorate basis the variances between the budgeted outturn and actual outturn for 20/21. We have obtained responses from management where significant movements from the prior year have been identified and there are no unresolved or inconsistent variances	No issues identified	Green - none	Green - complete
Planning and risk assessment	Financial Reporting Process	We have received response to our inquiries relating to the Trust's year end closedown and accounts preparation process	No issues identified	Green - none	Green - complete
Planning and risk assessment	Covid-19 considerations	We have completed a risk assessment and planning checklist to assess if any audit risks arising from the Covid-19 pandemic have been suitably identified and factored in to our planning/risk assessment	Risks identified are factored in our audit plan.	Green - none	Green - complete

## KEY:

**RED** Significant issue identified and/or response from management is significantly delayed

**AMBER** Issue identified and/or response from management is delayed

**GREEN** No issues noted and/or response from management has been received



# Audit work plan tracker (continued)

Audit Area	Planned activity	Progress	Issues and actions	Findings	Audit progress
Planning and risk assessment	Opening balances	We have performed audit procedures to gain assurance over the Authority's opening balances for the 21/22 financial period reconcile to the prior year audited position.	We are satisfied from this work that the opening balances reconcile to the prior year audited accounts. However, we have identified some additional codes in the opening trail balance which contain balances but are not forming part of the balance sheet. This is query with the management.	AMBER – one query in process	AMBER – one query in process
Planning and risk assessment	Review of the work of internal audit	We have completed a review of the internal audit reports issued by the Authority's internal auditor to inform our risk assessment and planning	<p>We have also reviewed the counter fraud reports to identify whether any cases would be elevated to an extent that it would warrant specific attention for the external audit. Almost all cases of fraud in 21/22 are standard for Councils e.g. blue badge, council tax avoidance and would not be pervasive to the financial statements. We have requested for further information on the 'provider invoicing internal audit report 'what was of low assurance. The response is expected by April 22<sup>nd</sup>, 2022.</p> <p>Internal audit sample testing found that staff can process journals where they are also the requesting officer. Internal audit testing showed that only 5 budget holders have the access to rights/privilege to process manual journals, and there was no evidence that any of these budget holders has processed a manual journal for their respective cost centre(s) this financial year. Following our review of internal audit reports in relation to journals we inquired Financial Analysis &amp; Support Team Manager about these findings. Based on our inquiries and further procedures we are satisfied that where areas of the business are able to generate, process and post journal transfers independently is deemed low risk. At year end, we will also ensure appropriate authorisation is taking place as part of our testing journals, by reviewing Oracle Users Responsibilities report.</p>	AMBER – one issue identified	Green – on track

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**KEY:****RED** Significant issue identified and/or response from management is significantly delayed**AMBER** Issue identified and/or response from management is delayed**GREEN** No issues noted and/or response from management has been received

# Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p><b>Audit Plan</b></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 Authority's 2021/22 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements. . The County audit plan will come to the July meeting. The Pension Fund plan is presented as a separate item at this meeting.</p>	May 2022	Not yet due
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the December Governance and Audit Committee.</p>	December 2022	Not yet due
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	January 2023 – March 2023	Not yet due
<p><b>Auditor's Annual Report</b></p> <p>This Report communicates the key issues arising from our Value for Money work.. The 20/21 report is a separate item on the April Governance and Audit Committee agenda.</p>	March 2023	Not yet due

2020/21 Audit-related Deliverables	Planned Date	Status
<p><b>Teachers Pensions Scheme – certification</b></p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform. We are still awaiting supporting data from the Council's contractor before we can complete this work</p>	Second quarter of 2022	In progress

# Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

[FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

## Our file review results

The FRC reviewed nine of our audits this year. It graded six opinion files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

# Financial Reporting Council annual report (cont.)

## Quality Assurance Department (QAD) Reviews

In addition to the reviews undertaken by the FRC on major local audits, the QAD team from the ICAEW undertake annual reviews of non-major local audits as well as reviews of Foundation Trusts on behalf of NHSE&I.

The QAD reviewed five of our audits this year and graded all of them (100%) as 'Satisfactory / generally acceptable' for both the financial statements and VFM elements of the audit, which is the highest grading.

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Grade	Number 2020/21	Number 2020/19	Number 2019/18
Satisfactory / generally acceptable	5	6	2
Improvement required	0	1	0
Significant improvement required	0	0	0
Total	5	7	2

## Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis.

As auditors we have shown compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Having formal internal consultations when considering complex technical issues.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

## Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

# Sector Update

Authorities 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 Governance and Audit Committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# Levelling up White Paper – Department for Levelling Up, Communities and Housing (“DLUCH”)

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

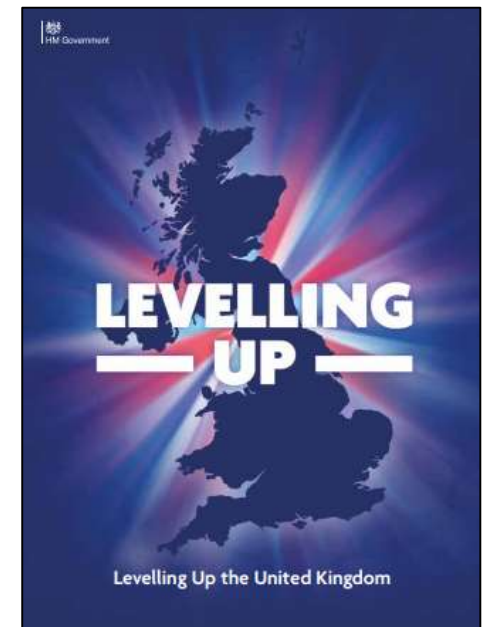
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- Physical capital – infrastructure, machines and housing.
  - Human capital – the skills, health and experience of the workforce.
  - Intangible capital – innovation, ideas and patents.
  - Financial capital – resources supporting the financing of companies.
  - Social capital – the strength of communities, relationships and trust.
  - Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)  
([www.gov.uk](https://www.gov.uk))



# Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Communities and Housing (“DLUCH”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

# Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states “In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils’ finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report.”

The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

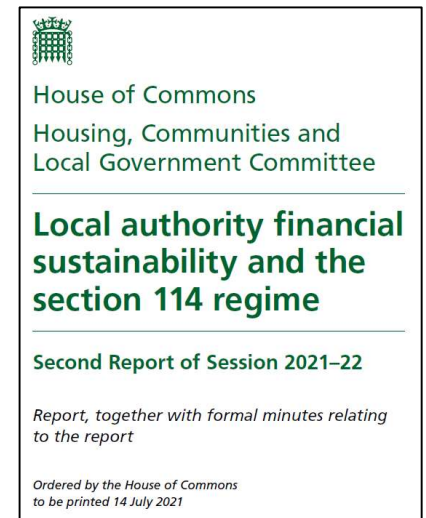
The report made 13 recommendations, and the Government response to these was published in October. The response notes “Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms.”

The initial report can be found here:

<https://committees.parliament.uk/publications/6777/documents/72117/default/>

Government response can be found here:

<https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime>





# Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that “delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention.”

The PAC report found “Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors.”

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.

- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here:

[Timeliness of local auditor reporting on local government in England - Committees - UK Parliament](#)



House of Commons  
Committee of Public Accounts

**Local auditor reporting on local government in England**

Eleventh Report of Session 2021–22

# 2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state “The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete.”

Grant Thornton commented “Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused.”



The news article can be found here:

<https://www.psa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/>

# Emergency consultation on 2021/22 reporting requirements – CIPFA

On 4 February CIPFA released an emergency four week consultation on time limited changes to the Code to help alleviate delays to the publication of audited financial statements. This explores two possible changes that might be made as an update to the 2021/22 code and to the agreed position in the 2022/23 code.

The decision to launch the consultation came after the Department for Levelling up, Housing and Communities (DLUHC) asked CIPFA to consider amendments to the Code of Practice on Local Authority Accounting, after just 9% of local audits for 2020-21 were published on time.

After considering a wide range of options CIPFA LASAAC decided to explore two approaches:

1) An adaptation to the code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021/22 financial year); this approach also explores the use of an index to be used to increase or reduce that valuation

2) Deferring the implementation of IFRS 16 Leases for a further year and reversing the planned changes to the 2022/23 code to implement that standard.

CIPFA Chief Executive Rob Whiteman said: “DLUHC is understandably concerned about this growing crisis – and CIPFA shares this concern. We are committed to supporting CIPFA LASAAC in its exploration of the options that may improve timeliness issues, without significantly impacting accountability. But this is a difficult issue, and we need feedback from stakeholders on whether and how this might work.”

CIPFA said that the changes do not represent the best form of financial reporting for local authorities, but are a “temporary expedient to help improve an unacceptable situation”.

The consultation closed on Thursday 3 March. Any updates to the Code are subject to oversight by the Financial Reporting Advisory Board before implementation.

The consultation can be found here:

<https://www.cipfa.org/policy-and-guidance/consultations/emergency-proposals-for-update-of-202122-and-202223-codes>

## Summary of the Grant Thornton response

### Property, Plant & Equipment Valuations

In principle we are very supportive of changes to the measurement basis for operational property, plant and equipment. However our view is that it is too late to effect change for the 2021/22 reporting cycle. Our response highlighted a number of difficulties with this approach, including the risk that some assets then fall outside of the requirement to be revalued every five years as a minimum, and the challenge of consistent application of indexation. The proposed amendments to the Code do not appear to override the requirement that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period, which stems from IAS 16:31. If the financial reporting requirements are not sufficiently tightly defined and auditors therefore cannot obtain sufficient and appropriate audit evidence to support this requirement, there is a risk that audit opinions could be modified as a result.

### Deferral of IFRS 16 - Leases

The removal of the requirement for disclosure (based upon IAS 8) in 2021/22 is not likely to have a significant impact in terms of freeing up auditor time and audit work covering the disclosures in 2022/23 would then be required in the 2022/23 audit. Savings to preparer time and effort would depend on what progress has already been made in preparing for the imminent implementation of IFRS 16.

# Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to have regard to’ their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority’s functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



# 2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state “Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and

- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.



The news article can be found here:

<https://www.psa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/>

The procurement strategy can be found here:

<https://www.psa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/>

# Guide to support Value for Money (VfM) analysis for public managers – CIPFA

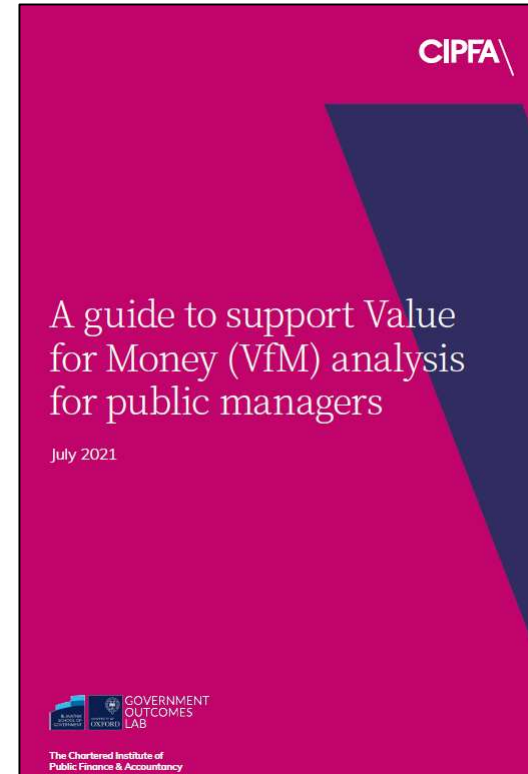
The Chartered Institute of Public Finance and Accountancy (CIPFA) has published this guide which complements a VfM toolkit which has been published separately. Both were developed under a collaborative project between Government Outcomes Lab (GO Lab) and CIPFA.

CIPFA state “The guide is aimed at public managers planning to assess Value for Money (VfM) of outcomes-based contract (OBC) programmes, or any other type of programme with an outcome-focus, using prospective information. This involves assessing economic validity of the programme with respect to ‘doing nothing’ as well as the closest comparator.”

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CIPFA explain that the guide:

- Describes what VfM represents in public provision of social services with a special focus on outcome-based contracts (OBCs). In particular the guide emphasises the link between economy and effectiveness criteria.
- Promotes thinking about longer-term effects of interventions, such as outcomes and impact, at the design/ planning stage of programmes. This means that having a good appreciation for efficiency is helpful but not necessary, especially when outcomes are both identifiable and measurable.
- Explain how it could be used to appraise public programmes with respect to anticipated costs and value of them using prospective information.

The guide is available to CIPFA members through the website.



# Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)

# Climate change risk: A good practice guide for Audit and Risk Assurance Committees – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a key role in supporting and advising the board and Accounting Officer in their responsibilities over risk management.

This guide will help ARACs recognise how climate change risks could manifest themselves and support them in challenging senior management on their approach to managing climate change risks. We have outlined specific reporting requirements that currently apply.

Our primary audience is ARAC chairs of bodies that we audit, but the principles of the guide will be relevant for bodies across the wider public sector. It promotes good practice and should not be viewed as mandatory guidance.

Climate change and the nature of its impacts on organisations globally is changing rapidly. This guide acknowledges the evolving nature of climate change and its associated risks and opportunities and will be refreshed in the future to reflect those changes.”

The guide includes sections on “How to support and challenge management”. This includes sections on governance and leadership; collaboration; risk identification and assessment; risk treatment, monitoring and reporting and continual improvement. There is also a “Complete list of questions that Audit and Risk Assurance Committees can ask” for each of these areas. The guide also includes “Key guidance and good practice materials” with links.



The report can be found here:

[Climate change risk: A good practice guide for Audit and Risk Assurance Committees - National Audit Office \(NAO\) Report](#)



# Local government and net zero in England – NAO

The National Audit Office (NAO) report responds to a request from the Environmental Governance and Audit Committee to examine local government and net zero. It considers how effectively central government and local authorities in England are collaborating on net zero, in particular to:

- clarify the role of local authorities in contributing to the UK’s statutory net zero target; and
- ensure local authorities have the right resources and skills for net zero.

The NAO comment “While the exact scale and nature of local authorities’ roles and responsibilities in reaching the UK’s national net zero target are to be decided, it is already clear that they have an important part to play, as a result of the sector’s powers and responsibilities for waste, local transport and social housing, and through their influence in local communities. Government departments have supported local authority work related to net zero through targeted support and funding. However, there are serious weaknesses in central government’s approach to working with local authorities on decarbonisation, stemming from a lack of clarity over local authorities’ overall roles, piecemeal funding, and diffuse accountabilities. This hampers local authorities’ ability to plan effectively for the long-term, build skills and capacity, and prioritise effort. It creates significant risks to value for money as spending is likely to increase quickly.

MHCLG, BEIS and other departments recognise these challenges and are taking steps to improve their approach. Their progress has understandably been slowed by the COVID-19 pandemic, but there is now great urgency to the development of a more coherent approach.”

Key findings include:

- Central government has not yet developed with local authorities any overall expectations about their roles in achieving the national net zero target.
- There is little consistency in local authorities’ reporting on net zero, which makes it difficult to get an overall picture of what local authorities have achieved.
- Neither MHCLG nor HM Treasury has assessed the totality of funding that central government provides to local government that is linked with net zero.

The report can be found here:

<https://www.nao.org.uk/report/local-government-and-net-zero-in-england/>



# Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state “Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation’s data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

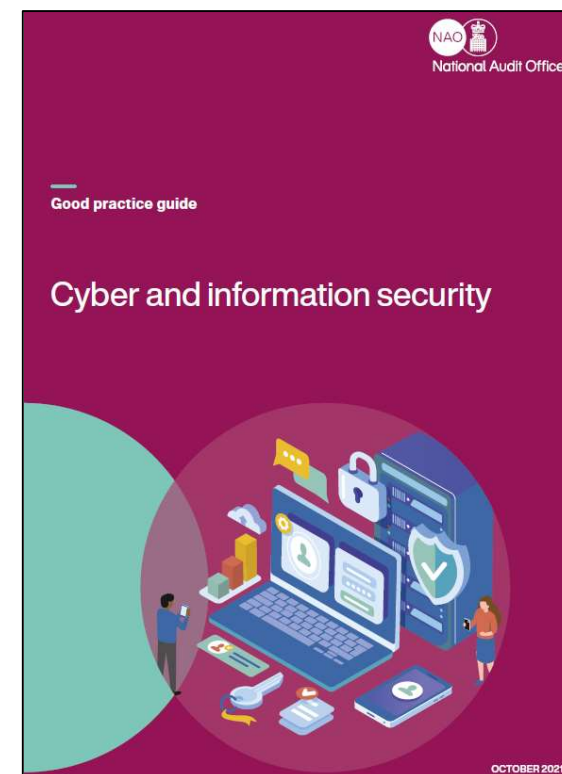
The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management.”

The report can be found here:

<https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/>





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By: Benjamin Watts – General Counsel  
To: Governance and Audit Committee – 27 April 2022  
Subject: **External Audit Plan for Kent Pension Fund**  
Classification: Unrestricted

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**Summary:** This report from the External Auditors, Grant Thornton UK LLP is presented to the Committee for its consideration.

**FOR ASSURANCE**

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**Recommendations**

- Members of the Governance and Audit Committee are asked to note the External Audit Plan for the Kent Pension Fund for assurance.

**Andrew Tait**  
**Senior Democratic Services Officer**  
**03000 416749**

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# Kent County Council Superannuation Fund External Audit Plan

**Year ending 31 March 2022**

April 2022  
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# Contents



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

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# Introduction and headlines

## Purpose

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

## Respective responsibilities

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

## Scope of our audit

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

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

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

## Significant risks

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

- The revenue cycle includes fraudulent transactions (rebutted)
- Management over-ride of controls
- Valuation of level 3 investments (Quarterly revaluation)
- Valuation of directly held property (Level 2, full annual revaluation and indexed monthly)

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

## Materiality

We have determined planning materiality to be £75m (PY £75m) for the Pension Fund, which equates to 1% of your prior year net assets as at 31 March 2021. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £3.75m (PY £3.75m).

## Audit logistics

Our interim visit took place in March and our final visit will take place in July – September 2022. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £41,000 (PY: £ 41,000 ) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers and £12,720 (PY: £ 12,000 ) for the Provision of IAS 19 Assurances to Scheme Employer auditors. The fee is based on an assumption that we will be able to work on site where appropriate to ensure the most efficient approach. If the Pension Fund would prefer the audit to be conducted remotely an additional fee of up to £5,000 may be chargeable.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

# Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 revenue risk (rebutted)	<p>Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>▪ there is little incentive to manipulate revenue recognition</li> <li>▪ opportunities to manipulate revenue recognition are very limited</li> <li>▪ the culture and ethical frameworks of local authorities, including Kent Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for Kent Pension Fund.</p>	
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ evaluate the design effectiveness of management controls over journals</li> <li>▪ analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>▪ test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>▪ gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence</li> <li>▪ evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

# Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Quarterly revaluation)	<p>The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2022.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met</li> <li>• independently request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in asset valuation.</li> <li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period and</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> <li>• where we have audited for 31 March 2021 , consider year end cash roll forward procedures</li> <li>• as part of our assessment of key controls over hard to value investments, we will identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.</li> </ul>
Valuation of Directly Held Property (Level 2 Investment) (Annual revaluation)	<p>The Fund revalues its directly held property on an annual basis, and indexed on a monthly basis with the relevant property sector index, to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at December 2021</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• independently request year-end confirmations from investment managers and the custodian</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuations were carried out</li> <li>• 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.</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records</li> </ul>

# Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition  Page 118	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets.</p> <p>Having considered the risk factors relevant to Kent County Council Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 6 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 6.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Perform testing over post year end transactions to assess completeness of expenditure recognition.</li> <li>• Test a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.</li> </ul>

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

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## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



# Accounting estimates and related disclosures

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of directly held property
- Valuation of level 2 and level 3 investments
- Valuation of property and pooled property investments

## The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



### Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

### Planning enquiries

As part of our planning risk assessment procedures we have sent enquiries to the management that will be presented at the Governance and Audit Committee as part of our informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

### Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540\\_Revised-December-2018\\_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

# Other matters

## Other work

The Pension Fund is administered by Kent County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
  - Issuing a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts

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## Other material balances and transactions

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

## Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.



# Materiality

## The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

## Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £75m (PY £75m), which equates to 1% of your prior year net assets.

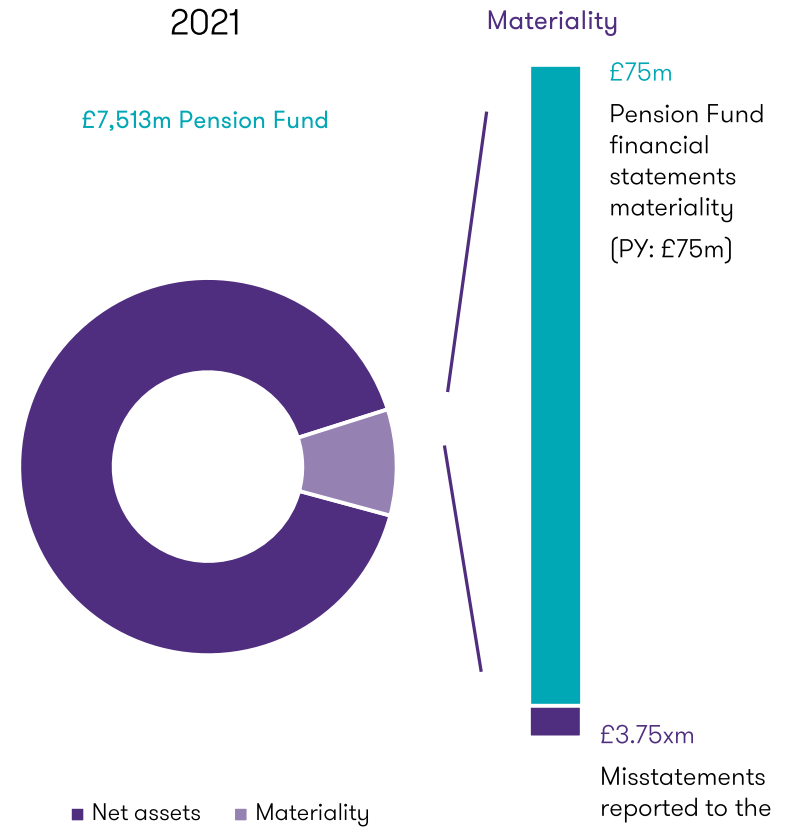
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

## Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £3.75m (PY £3.75m).

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

Net assets as at 31 March 2021



# IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

[We plan to rely on the operation of application controls whether automated / IT dependent and will therefore carry out an extended ITGC assessment on the IT systems that support the operation of those controls. This is to gain assurance that the relevant controls have been operating effectively throughout the period.]

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle	Financial reporting	<ul style="list-style-type: none"> <li>Streamlined ITGC design assessment</li> </ul>
Altair	Pension administration	<ul style="list-style-type: none"> <li>Streamlined ITGC design assessment</li> </ul>

# Audit logistics and team

Planning and  
risk assessment  
March 2022

Audit  
committee  
April 2022

Audit Plan

Year end audit  
July – September 2022

Audit  
committee  
October 2022

Audit Findings  
Report and Audit  
Opinion

## Paul Dossett, Key Audit Partner

Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Governance and Audit Committee, the Corporate Director and the Chief Financial Officer. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.

## Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

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

## Richmond N Nyarko, Manager

Richmond is responsible for overall audit management, quality assurance of audit work and output, and liaison with the **Governance and Audit** Committee and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Richmond will be responsible for the delivery of our work on your arrangements in place to secure value for money.

## Radoslaw Borzymowski, Audit In charge

Radoslaw will support Richmond in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will lead the on-site virtual delivery of the team and be the first point of contact for the finance team. He will also carry out first reviews of the team's work.

# Audit fees

PSAA awarded a contract of audit for Kent County Council Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £23,537. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the 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, as detailed on page 7 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for direct property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been shared with the Director of Finance.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Kent County Council Pension Fund Audit	£37,037	£41,000	£41,000
Total audit fees (excluding VAT)	£37,037	£41,000	£41,000

## Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

## Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Independence and non-audit services

## Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

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

## Other services

The following other services provided by Grant Thornton were identified

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

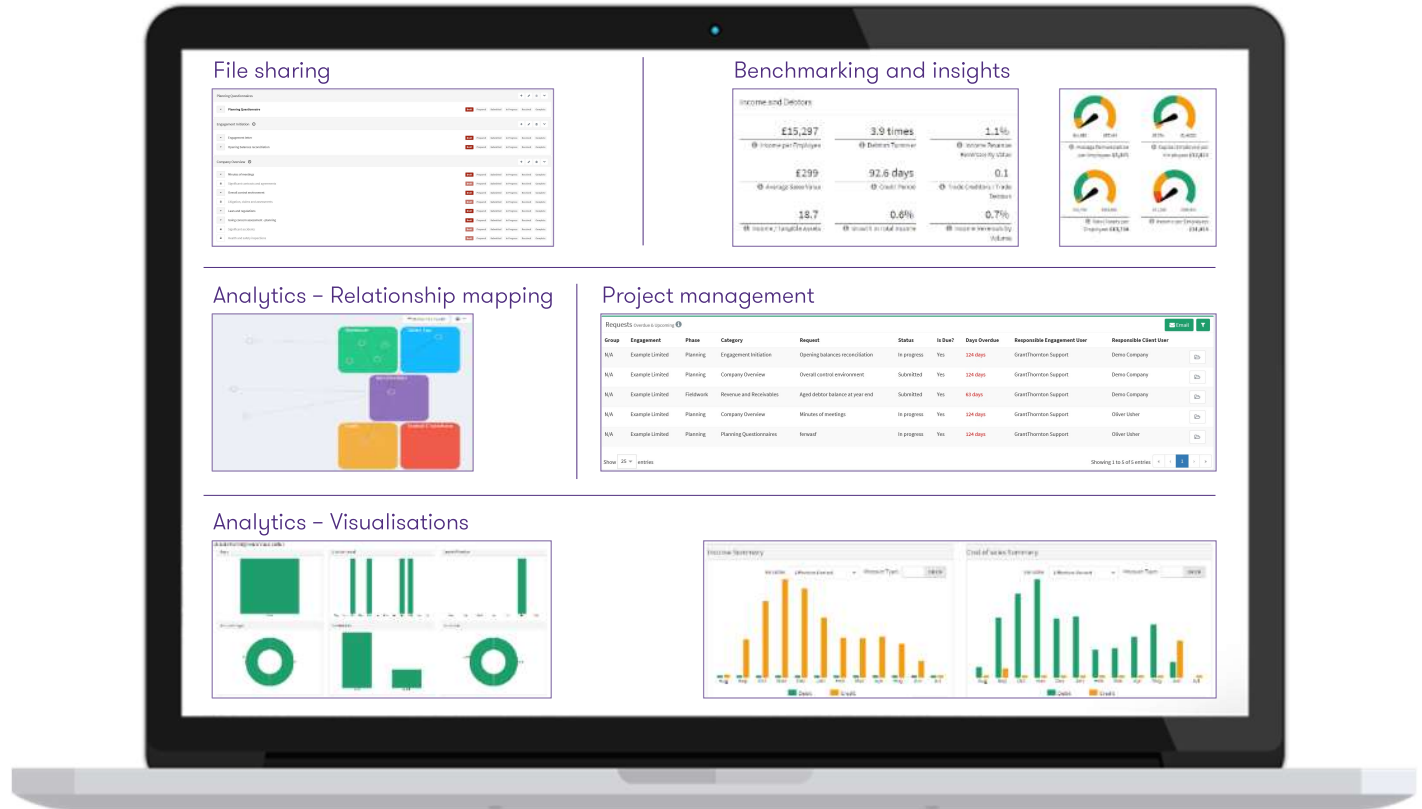
This service is not subject to contingent fees.

Service	Description	Fees £	Threats	Safeguards
Audit related				
Provision of IAS 19 Assurances to Scheme Employer auditors	As Auditor of the pension fund we are required to provide assurance to the auditors of scheduled bodies. This is an additional requirement this year in addition to the work required to provide assurance for the pension fund financial statements. As this additional work is to support the IAS 19 for admitted bodies, the Pension Fund will need to determine whether to recharge the cost to these bodies. £3,720 fixed fee plus £600 per scheduled body letter (expected to be 15)	12,720	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,720 in comparison to the total fee for the audit of £41,000 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.

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

# Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



## Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



## File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



## Project management

- Facilitates oversight of requests
- Access to a live request list at all times



## Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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## How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

### Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

### More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.



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

To: Governance and Audit Committee – 27 April 2022

Subject: **Audit Risk Assessment**

Classification: Unrestricted

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**Summary:** The attached questionnaire from Grant Thornton summarises management's responses to questions on the Council's processes in relation to general enquiries of management, fraud, law and regulations, going concern, related parties and accounting estimate.

## **FOR DECISION**

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### **Introduction**

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

### **Purpose of Report**

3. As part of Grant Thornton's risk assessment procedures they are required to obtain an understanding of management processes and the G&AC oversight of the following areas:
  - General Enquiries of Management
  - Fraud
  - Laws and regulations
  - Related Parties
  - Going Concern
  - Accounting Estimates
4. The attached report includes a series of questions on each of these areas and the response we have provided to Grant Thornton. Although incorporated into a Grant Thornton report and layout, these are responses from KCC management.

5. The G&AC should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

### **Recommendation**

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

**Zena Cooke**  
**Corporate Director of Finance**  
03000 419205

# Informing the audit risk assessment for Kent County Council 2021/22



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

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## Purpose

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

## Background

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

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

## Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

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

## General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?	Continued impact of COVID 19 on the financial statements for 2021/22. Possible increase in costs in relation to inflation and war in Ukraine
2. Have you considered the appropriateness of the accounting policies adopted by Kent County Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Yes  No
3. Is there any use of financial instruments, including derivatives? If so, please explain	Yes, but no derivatives
4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?	No



## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Potential material change in value of land and buildings.
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No, Not aware of any loss contingencies or unasserted claims that may affect financial statement.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Kent County Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Invicta Law, the Council's retained (and owned) legal provider. Bevan Brittan LLP, Browne Jacobsen, Burgess Salmon. No significant or material litigation from prior years.

## General Enquiries of Management

Question	Management response
<p>9. Have any of the Kent County Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>No – some low level fraud has been reported but it would not affect the financial statement.</p> <p>No, -none from a legal perspective that would materially affect the financial statement.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>PWC working with us on Strategic Reset Programme and Capital Reporting Solution</p> <p>Itelligenti – working on financial reporting solutions</p> <p>Futuregov for Financial Assessments</p>
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>Expected credit losses have been considered. Trade debtors will factor in expected credit losses.</p>

# Fraud

## Matters in relation to fraud

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

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

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

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

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

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

## Fraud risk assessment

Question	Management response
<p>1. Has Kent County Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>The risk is considered to be minimal. Controls are in place through the budget setting, budget monitoring and year-end analytical review. We now have details on a business intelligence dashboard of cost centres per budget manager, key service lines and manager analysis enabling an easily accessible view at a detailed level allowing us to target and challenge any budget manager where we perceive there may be anomalies. We also have a regular balance sheet management review. Variances must be explained and validated. Significant changes from previous year's spend must also be explained.</p> <p>Fraud risks have been developed through the analysis of fraud referrals both within the organisation and through engagement with other public/ private sector organisations and publications such as fighting fraud locally. This has resulted in an overall risk of fraud included in the corporate fraud risk register (CRR0049). There is a specific risk within Libraries, Registration and Archive (LRA0008) on internal fraud.</p> <p>There is also a specific risk in relation to employee pay and expenses (PC0004). There is a also a specific fraud risk relating to procurement fraud (SC006). These risks have been considered and relevant controls have been put in place to help mitigate against the risk event. In addition to the above work has progressed with engaging with Divisional Management Team in embedding fraud risk assessments and the mapping out of controls to mitigate the risk, this work has been delayed due to Covid, however we have only 6 divisions to work with to complete this exercise, once done the risk assessments form part of our relationship management meetings with divisions.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Mandate Fraud, financial assessment in respect of personal budgets, use of direct payments, imprest accounts, IR35 Compliance, procurement fraud have been considered as most at risk, however these have not resulted in values of fraud or error that would be material to the accounts. In addition Blue Badge fraud remains the highest referral fraud type with reputational damage being the main risk opposed to financial risk.</p>

## Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kent County Council as a whole, or within specific departments since 1 April 2021? If so, please provide details	We are aware of instances of actual, suspected or alleged fraud, errors or other irregularities
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	A Counter Fraud Report is provided to the Governance and Audit committee which is also provided for information to the Corporate Management Team.
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Kent County Council where fraud is more likely to occur?</p>	<p>Mandate fraud has evolved, we have seen two attempts made through the hacking of suppliers email accounts to facilitate a change of bank account. This saw an actual loss of £105,000 which was recovered in full from the bank and a further attempt which if actioned would have seen a loss of over £1m due to the size of payments made to the supplier. Two factor authentication failed (human error) on the second attempt. Advice provided to the control team and additional verbal verification via a telephone call is now in place.</p> <p>Direct payment misuse has seen a slight increase in 2021/22 but not to a material level.</p> <p>Areas of concern are with social care – blue badge (low value high volume) and direct payments.</p>

## Fraud risk assessment

Question	Management response
6. What processes do Kent County Council have in place to identify and respond to risks of fraud?	<p>There is through the report to G&amp;A analysis of the fraud types (existing and emerging), volumes and amounts, this is derived from the reporting for financial irregularities by services to the Counter Fraud Team, this processes is a requirement of the financial regulations of the Council.</p> <p>The Anti Fraud and Corruption Strategy has been updated to reference any new initiatives, policies or strategies to be risked assessed for fraud by a Counter Fraud Specialist. This requirement is still being embedded within the organisation and is raised through relationship management meetings.</p>

## Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Kent County Council, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Each year an annual audit plan is developed that takes into account the risks of the council, including fraud risks. Where there is a significant risk (such as imprest accounts) this has prompted a full review to assess the effectiveness of internal controls.</p> <p>In addition the Counter Fraud Team have developed and are progressing a work programme to assess the Counter Fraud Culture within business units to support management in ensuring there is a robust culture within the 1st and 2nd lines of defence.</p> <p>Standard fraud awareness sessions have been delivered, in particular to Commissioning Officers on fraud risks within the commissioning life cycle. Infrastructure on fraud and bribery risks. School Finance officers, senior leaders and governors. In addition a school anti-fraud policy has been updated to include a fraud risk assessment for the schools to complete and embed into their risk management framework.</p> <p>Not that we are aware of, nothing has been reported by management in this respect.</p> <p>Participation in the NFI helps detect fraud and error within the councils systems.</p> <p>Yes, this is a risk applicable to any budget manager, as their performance against budget is a factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring, schemes of delegation and year end processes, as well as setting realistic budgets to start with. The creation of KCC Companies does increase risk but appropriate controls /governance are in place.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Internal Audit are part of a task and finish group looking at IR35 arrangements, there may be from this work some adjustments needed on the level of income tax and national insurance contributions.</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Kent County Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>There are KCC standards which include the Nolan principles, staff code of conduct, Anti-Fraud and Corruption Strategy and Anti Bribery Policy. There is e-learning provided to support the prevention and detection for fraud. There is a whilst blowing policy which encourages staff to report there concerns, the Counter Fraud Team is included in this policy as an alternative to raising concerns with management.</p> <p>As part of Fraud Awareness presentations whistleblowing is covered.</p> <p>Staff are expected to raise all financial irregularities with Internal Audit. Significant issues that have been raised have resulted in audits being conducted, such as imprest accounts.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Currently KR16 and above have delegated authority to spend up to £1m without member decisions, these posts are considered high risk due to no separation of duty being required, however in practice, Heads of Service will present business cases to support spending the councils money.</p> <p>There is an enhanced vetting process in place when recruiting into a KR16 and above, this ensures that not only the information provided on the application form is correct, but also ensures there are no financial or reputational risks to the authority.</p> <p>Furthermore through the development of the fraud, bribery and corruption risk assessment, further areas of high risk will be identified with relevant controls being identified to mitigate the risk, for example regular reminders on declarations of interest, budget monitoring, separation of duties, rotation of duties.</p>



## Fraud risk assessment

Question	Management response
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>As part of the NFI exercise we are alerted to potential conflicts of interest, these are investigated and where needed a formal investigation is progressed, however the matches have resulted in the need to update declarations of interests for members and officers who sit on charity boards as part of their position within KCC.</p> <p>Regular reminders of declarations are issued. As part of the supplier set up process requestors are required to confirm there is no conflict of interest when setting up a supplier, it also requires the budget holder to authorise the setting up of the supplier, as well as authorisation from the commissioning category manager. In addition reminders on whistle blowing procedures are issued to all staff to prompt any concerns being raised with either management or Internal Audit.</p> <p>Internal Audit has conducted an audit of Declarations of Interest – Members in 2021/22. The audit provided Adequate levels of assurance with 3 issues being raised for management to address.</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>A Counter Fraud Report is produced to the Governance and Audit Report at each meeting. This includes issues and risks identified during the reported period.</p> <p>Governance and Audit Committee has the ability to call in any manager to question their arrangements in addressing the risks of fraud.</p> <p>Relevant enquiries have been made by members of fraud figures and trends.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>Yes we have had a number of concerns raised through the whistle blowing hotline, depending on the nature of the concern these have either been addressed through management engagement or through an investigation by a member of the Counter Fraud Team.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>One referral was received but not progressed due to insufficient information being provided.</p>

# Law and regulations

## Matters in relation to laws and regulations

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

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

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

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

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Kent County Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p>	<p>In addition to audit activity, contractual provisions are in place with legal services providers to escalate issues of legal compliance to the Monitoring Officer. Provisions on compliance with laws and regulations are included in the Council's Operating Standards and Constitution which are dip sampled through meeting attendance and decision review. Monitoring Officer is a Member of CMT and Corporate Board. Annual Governance Statement includes questions on compliance that are reviewed and tested throughout the year.</p> <p>The Monitoring Officer now also meets weekly with the Leader and Head of Paid Services to discuss activity and early areas of legal risk and non compliance.</p> <p>Monitoring Officer seeks assurance on relevant items and has issued s5 reports in previous 2 financial years where appropriate.</p> <p>There are no material changes to the council's regulatory environment likely to have a significant impact on the financial statement.</p>
<p>2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through the provision of an annual standalone report on the Annual Governance Statement.</p> <p>Similarly, regular reporting on progress against the actions identified is brought before the Committee mid year. In each calendar year therefore there are a minimum of 3 reports relating to this in addition to activity on items like the Code of Corporate Governance etc.</p>

## Impact of laws and regulations

Question	Management response
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>For noting, the Council's Monitoring Officer did issue a Section 5 report within the relevant period relating to the Council's inability to meet statutory duties in relation to unaccompanied asylum seeking children but this does not have an ongoing impact on the 2021/22 statements save for as expressly referred.</p> <p>The Council is currently reviewing activity regarding SEND transport as a suspected non-compliance but this will not have a material impact on 2021/22 statements.</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.</p>	<p>No material claims received at the time of completion.</p>
<p>5. What arrangements does Kent County Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The Chief Accountant liaises with Legal Services team to capture all potential claims. Legal estimate the potential 'loss' as best they can. This is then reported to this Committee through the Statement of Accounts.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>No, but we have made a disclosure in relation to IR35 determination errors</p>

# Related Parties

## Matters in relation to Related Parties

Kent County Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Kent County Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Kent County Council's 2020/21 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> <li>the nature of the relationship between these related parties and Kent County Council</li> <li>whether Kent County Council has entered into or plans to enter into any transactions with these related parties</li> <li>the type and purpose of these transactions</li> </ul>	<p>No</p>
<p>2. What controls does Kent County Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Members and Senior Officers are required to complete declarations of interest which are reviewed during the year end closure. Information is also collected via the early return process.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Normal procurement and payment authorisation rules.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Financial Regulations and the delegation matrix sets out the responsibilities that are to be followed. There are the 'how to buy' and other guidance on procurement process. All payments and procurement follow the same rules.</p>

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.



## Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Kent County Council will no longer continue?</p>	<p>The main processes/controls that the Council currently operates include the following:</p> <ul style="list-style-type: none"> <li>• Annual budget setting and medium-term plan setting out spending plans. Although the budget does not narrowly distinguish spending between statutory and discretionary services we have the ability to show this split if necessary to identify reductions in statutory spend</li> <li>• Regular Budget Monitoring</li> <li>• Performance Monitoring based on a RAG rating of 33 Key Performance Indicators where green identifies where performance is at or above target, amber where performance is below target but above a floor level and red where performance is below the floor level</li> </ul>
<p>2. Are management aware of any factors which may mean for Kent County Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>Potentially inadequate funding and/or unaffordable changes in costs or demand. Again these would be identified through budget planning and budget/performance management and addressed accordingly.</p>
<p>3. With regard to the statutory services currently provided by Kent County Council, does Kent County Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Kent County Council to cease to exist?</p>	<p>Yes, although the position will need to be kept under review as part of budget planning</p>

## Going Concern

Question	Management response
4. Are management satisfied that the financial reporting framework permits Kent County Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	Yes, we are satisfied that the arrangements allow the Council to prepare financial statements on a going concern basis

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Governance and Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	These are set out in the Statement of Accounts, please see Note 5, page 34 of the 2020/21 accounts.
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	Through discussions with valuers and actuaries.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Through use of external advisors</p> <p>PPE – Appointment of external valuer – discussion of valuation basis and useful lives. Any changes required discussed with Head of Finance Operations. Use of K2 asset management database for source data. Methodologies for estimation uncertainties in Note 5 of the accounts were agreed with external audit.</p> <p>For IAS 19 confirm with the actuaries with methods and assumptions prior to the preparation of the IAS 19 report and relevant disclosures.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>We have a rolling programme of revaluations so any changes required are identified as we revalue the asset base. Review of accounts by Head of Finance Operations including prior year comparators.</p> <p>Annual review accrual limits, expected credit losses and impairments to ensure they still remain appropriate for the following year</p>
5. Were any changes made to the estimation processes in 2021/22 and, if so, what was the reason for these?	<p>Expected Credit Losses – an estimation of future losses has been included for Trade Debtors. This is not expected to be a material change.</p> <p>No other changes to estimation processes.</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Have highly skilled, qualified and experienced accounting team. Rigorous procurement process for our valuers.
7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	We use our professional judgement to determine what controls are required e.g. thorough review and challenge of asset valuations provided by external valuer. We review and challenge the outcomes of any reports received.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Control activities are subject to a review process. Any concerns identified are raised as necessary with the management team to address and resolve.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	Head of Finance Operations and S151 Officer review of accounts. Training is provided to Governance and Audit Committee.

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Management are satisfied with the arrangements due to the analysis and modelling that is undertaken.
12. How is the Governance and Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Assurance is provided through the detail set out in the Statement of Accounts The Committee attend briefing sessions that set out the information and are an opportunity for the Committee to ask questions and raise any queries in addition to the formal committee meeting.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Current Value – either Existing Use Value (EUV) or, if specialist asset where there is no market based evidence of current value– Depreciated Replacement Cost (DRC).	Annual review of PPE carrying amount undertaken to inform valuations required to ensure the balance sheet is materially correct.  Rolling programme of annual valuations.  Thorough review and challenge of asset valuations.	Yes	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion subject to thorough challenge and review of methodologies and resulting valuations.	No
Surplus asset valuations	Fair Value	As above	Yes	As above	As above

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property valuations	Fair Value	Annual revaluation as prescribed in the CIPFA Accounting Code of Practice.	Yes	As above	As above
Depreciation	Straight line basis over asset's useful economic life. Componentisation methodology.	Review of valuations including asset lives.	Yes	As above	No



## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	<p>Roll forward method is used to value the liabilities. For 2021/22 for events that are deemed “material” will be measured under “stop-start” method.</p> <p>Valuations involve projecting future cashflows to be paid from the Fund. Cashflows include pensions paid to current members and those to future members.</p>	<p>Valuations are performed tri-annually and the rolling forward previous valuations should not materially distort the results.</p> <p>For ‘stop-start’ method we will review these events to ensure where material this method should be used.</p>	Yes – Barnett Waddingham	Degree of uncertainty inherent with any revaluation. We employ professional valuers and rely on expert opinion subject to challenge and review.	Yes – McCloud impact on current and projected service cost, as adjustment is required to the projected service cost from 1 April 2022 so no further allowance for the McCloud remedy is made.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Fair value estimates for Financial Assets	Methods and models supplied by our Treasury Advisors Arlingclose. FV calculations also include 12 month expected credit loss calculation for the investments held at amortised costs the majority of which are secured bonds. For 2020/21 a multiplication factor of 131% of historic default rates was used to calculate the ECL which was around £16K for our portfolio and not seen as material. We anticipate a similar factor to apply for 2021/22.	Valuations are provided annual	Yes	Apply market prices data from Bloomberg and other sources as appropriate dependent on fair value hierarchy.	No

## Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	PFI operator models for source data. Accounting models based on disaggregation of unitary charge.	Review of actual unitary charge compared to operators model on an annual basis	No	Annual review of the models and comparing the outcome to previous iterations.	No



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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 – 27 April 2022

Subject: **Kent Pension Fund Audit Risk Assessment**

Classification: Unrestricted

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### **Summary:**

The attached report from Grant Thornton sets out a range of questions and management's responses to those questions on the Pension Fund's processes in relation to general enquiries of management, fraud, law and regulations, going concern, related parties and accounting estimate.

### **Recommendation:**

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

### **FOR DECISION**

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#### **Introduction**

1. Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) the auditor has specific responsibilities to communicate with the Governance and Audit Committee (the Committee) enabling the auditor to obtain information relevant to the audit from the Committee and to support the Committee in fulfilling its responsibilities in relation to the financial reporting process.

#### **Purpose of Report**

2. As part of Grant Thornton's risk assessment procedures they are required to obtain an understanding of management processes and the Committee's oversight of the following areas in relation to the Kent Pension Fund:
  - General Enquiries of Management
  - Fraud
  - Laws and regulations
  - Going concern
  - Related Parties
  - Accounting Estimates
3. The attached report includes a series of questions on each of these areas

and the response we have provided to Grant Thornton. Although incorporated into a Grant Thornton report and layout, these are responses from Pension Fund management.

4. The Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

### **Recommendation**

5. Members are asked to consider and agree the management responses provided to Grant Thornton.

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**April 2022**

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# Informing the audit risk assessment for Kent County Council Pension Fund 2021/22

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



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## Purpose

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

## Background

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

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

## Communication

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

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

## Purpose

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

## General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2021/22?</p>	<p>In October 2021, the fund restructured the Equity Protection Program managed by Insight. Whilst this is a key event and has been designed to have a positive outcome for the Fund it will not have a significant impact on the financial statements.</p> <p>In recent months there has been enhanced volatility in the market due to economic and political issues. Whilst this will have a short term impact on asset prices, as investments valuations are marked to market the equity protection programme will help to alleviate the impact of the volatility. The Fund had minimal exposure to Russian and Belarusian assets in its listed and private equity or bonds mandates and has not been significantly affected by the conflict in Ukraine.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Kent County Council Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>We have considered the appropriateness of the accounting policies and have concluded that no changes are required.</p> <p>There have been no events or transactions that have caused us to change or adopt new accounting policies</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>All the investments made by the Pension Fund except directly held property assets are classified as Financial Instruments. These include derivatives</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	All of the Fund's non current assets are held at market value and there is no impairment required
6. Are you aware of any guarantee contracts? If so, please provide further details	The pension Fund holds Bonds issued by financial institutions on behalf of admission employers . There are no other guarantee contracts. Some employers have provided guarantees for admission bodies replacing the requirement for bonds.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Kent County Council Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has used Invicta Law, and through them engaged legal counsel, to advise on employer admission and regulatory matters. DTZ who manage the Council's owned properties have used Invicta Law and other 3rd parties for legal advice Currently there is no open litigation or contingencies from prior years.

## General Enquiries of Management

Question	Management response
9. Have any of the Kent County Council Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Mercer provide investment advice to the Pension Fund on an ongoing basis. Barnett Waddingham has undertaken a review of the governance of the Pension Fund and KCC Finance support to the Fund as well as ongoing governance advice.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	We have considered and identified a need for a credit loss provision for uncollected rental income on directly held property. The provision will be based on the investment managers' assessment of likelihood of non collection of rents.

# Fraud

## Issue

### Matters in relation to fraud

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

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

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

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

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

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

## Fraud risk assessment

Question	Management response
<p>1. Has Kent County Council Pension Fund assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the pension fund's risk management processes link to financial reporting?</p>	<p>Yes and we believe the risk of fraud is very low both with regard to external as well as internal fraud.</p> <p>We have procedures in place for the process of investing / divesting from fund managers who also issue internal control reports.</p> <p>With regard to internal fraud officers comply with KCC protocols to assess and identify fraud. In particular they comply with KCC policies and procedures with regard to payment / procurement processes, employee expense and IT security. Segregation of duties, several stages of review/authorisations for payments. Pension payment fraud is managed through ATMOS, Tell us once and NFI, who review the records against the registry of deaths etc. to identify fraudulent continuing claims for benefits. No significant issues noted in this regard</p> <p>Budgetary control and reporting identifies any areas of significant variance for review and financial reporting</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>See above</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kent County Council Pension Fund as a whole, or within specific departments since 1 April 2021? If so, please provide details</p>	<p>No</p>



## Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>A copy of the risk register is reported to every meeting of the Pension Board and to the Superannuation Fund committee.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Kent County Council Pension Fund where fraud is more likely to occur?</p>	<p>The risk register includes:</p> <p>In-house treasury management risks – use of counterparties, separation of duties, sufficient cover for tasks.</p> <p>Fraudulent payments to deceased pensioners. ATMOS, Tell us once and NFI used to monitor these payments.</p>
<p>6. What processes do Kent County Council Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>See above</p>

## Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Kent County Council Pension Fund, including:</p> <ul style="list-style-type: none"> <li>the existence of internal controls, including segregation of duties; and</li> <li>the process for reviewing the effectiveness the system of internal control?</li> </ul> <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Each year an annual audit plan is developed that takes into account the risks to the Council. Internal Audit carry out a periodic review of Pension Fund risks. No areas of significant lack of control has been identified either by internal audit or by management</p> <p>There are internal controls in place to ensure all investment transactions are authorised and that there is separation of duties where appropriate eg re settlement of investment commitments. All reconciliations of transactions are reviewed by a separate person. There is also ongoing monitoring of employer and employee payments, quarterly reporting to the board and committee to identify and unusual variances. KCC measures re procurement / payment processes are applied.</p> <p>No pressure from the S151 officer, committee or board to achieve financial targets and for the override of controls.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>Not that we are aware of</p>

## Fraud risk assessment

Question	Management response
<p>9. How does Kent County Council Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>Officers engaged on the pension Fund are employees of Kent County Council. They are expected to comply with KCC standards and follow KCC policies which include staff code of conduct, anti-fraud corruption strategy and anti bribery policy. There is e-learning provided to support the prevention and detection of fraud.</p> <p>KCC has a whistle blowing policy and the counter fraud team undertakes fraud awareness presentations</p> <p>Staff are encouraged to raise all financial irregularities with internal audit</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>S151 officer has delegated authority to spend up to £1m. In practice they work with the Chair of the Committee implementing committee decisions including investment decisions.</p> <p>Internal controls in place, staff expected to follow KCC policies and guidelines. Segregation of duties</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>No</p> <p>Officer and member declarations are required for setting up suppliers, committee decision making. Commissioning category managers also vet new suppliers</p>

## Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>Counter fraud reporting to Governance &amp; Audit committee at each meeting</p> <p>Governance and Audit Committee has the ability to call in any manager to question their arrangements in addressing the risks of fraud.</p> <p>There have been no cases of reported fraud</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>KCC has a whistle blowing policy and no complaints reported.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None</p>

## Law and regulations

### Matters in relation to laws and regulations

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

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

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

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

## Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Kent County Council Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the pension fund's regulatory environment that may have a significant impact on the pension fund's financial statements?</p>	<p>Contractual arrangements with service providers including investment managers include regulatory compliance requirements.</p> <p>Managers keep abreast of regulations through receiving communication from the LGA, DLUHC, Scheme Advisory Board, the Fund actuary – Barnett Waddingham, and investment consultant – Mercer. The Pensions Regulator (tPR), Pensions Ombudsman, Internal Dispute Resolution Procedure (IDRP). CIPFA</p> <p>Staff and member training programme eg re the Pensions Regulator code of Practice 14. Report non compliance to tPR.</p> <p>The annual review and update of the governance compliance statement ensures a review of compliance with LGPS regulations</p> <p>Management are not aware of any regulatory changes that may have an impact on the financial statements.</p>
<p>2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Reporting to the Pensions Board and Committee who are responsible for governance. Annual review and completion of the Governance Compliance Statement.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2021 with an on-going impact on the 2021/22 financial statements? If so, please provide details</p>	<p>None</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does Kent County Council Pension Fund have in place to identify, evaluate and account for litigation or claims?	The Business Partner and their successor the Head of Pensions and Treasury liaises with the Pensions Administration manager to identify issues.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None

# Related Parties

## Matters in relation to Related Parties

Kent County Council Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Kent County Council Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the pension fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the pension fund, or of any entity that is a related party of the pension fund .

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the pension fund 's perspective but material from a related party viewpoint then the pension fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



## Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Kent County Council Pension Fund's 2020/21 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> <li>• the nature of the relationship between these related parties and Kent County Council Pension Fund</li> <li>• whether Kent County Council Pension Fund has entered into or plans to enter into any transactions with these related parties</li> <li>• the type and purpose of these transactions</li> </ul>	None
<p>2. What controls does Kent County Council Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	KCC procedures- Members and senior officers are required to complete declarations of interest which are reviewed during the year end accounts closure. Information is collected via the early return process by KCC
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	All such transactions and arrangements require authorisation by senior KCC officers in line with the KCC procedures. Normal KCC procurement and payment procedures apply.
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	All controls on the authorisation of such transactions are in line with the KCC procedures The Financial Regulations and the delegation matrix sets out the responsibilities that are to be followed. There are the 'how to buy' and other guidance on procurement process. All payments and procurement follow the same rules.

# Going Concern

## Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

## Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Kent County Council Pension Fund will no longer continue?</p>	<p>The fund undertakes regular cashflow monitoring and forecasting to ensure there is sufficient funds in the short term as well as long term to pay benefits as well as investment commitments. The triennial valuation exercise carried out by the actuary assesses the funding level of the fund and sets contribution levels to ensure long term affordability and sustainability. Regular monitoring of investment performance and income collection ensures that timely actions are taken to protect the financial position of the fund.</p>
<p>2. Are management aware of any factors which may mean for Kent County Council Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>
<p>3. With regard to the statutory services currently provided by Kent County Council Pension Fund, does Kent County Council Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Kent County Council Pension Fund to cease to exist?</p>	<p>Yes, we expect to continue to deliver services for the foreseeable future. The fund had a very strong funding position of 98% at the last triennial valuation.</p>
<p>4. Are management satisfied that the financial reporting framework permits Kent County Council Pension Fund to prepare its financial statements on a going concern</p>	<p>Yes.</p>

# Accounting estimates

## Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	<p>Significant estimates relate to the levels 2 and 3 investments, primarily property investments and Private Equity and Infrastructure Funds.</p> <p>Estimates are also required in calculation of actuarial pension fund liability</p>
2. How does the pension fund's risk management process identify and address risks relating to accounting estimates?	<p>Having identified the areas of significant estimation involved, management ensures that they employ the services of regulated and certified experts that are best placed to undertake the estimation following guidance, regulations and best practice.</p> <p>Property Valuation is undertaken by independent valuer (Colliers) and these are validated by the property manager DTZ. Private Equity and Infrastructure Funds are valued by the Fund Managers in accordance with the applicable accounting standards and laws. Internal control reports provided by these managers provide assurance on the controls on valuations in their organisation to ensure that risk related to estimates is mitigated.</p> <p>Pension fund liability estimates are calculated by the Actuary based on actuarial standards and LGPS regulations. The Government Actuary's Department has recently completed a section 13 report on the 2019 actuarial valuation.</p>
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	<p>Quarterly reporting provided by investment managers details the methodology of valuations as well as the breakdown of assets that make up the valuations. It also highlights changes in movements in the valuations as well as the factors behind the changes. This would include adjustments for the underlying market conditions as well as the business model and prospects for the underlying investments. This helps the fund to assess the reasonableness of the valuation which often in these cases includes estimation.</p>
4. How do management review the outcomes of previous accounting estimates?	<p>The outcomes of estimated valuations get validated when underlying assets are sold and the valuations are realised or if there is a sudden write down/adjustment required for valuation of assets. The information</p>

## Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management pay regard to the specialist nature of investment or liability to determine the need to apply specialised skills or knowledge related to accounting estimates
7. How does the pension fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	<p>The level of controls required for specialist services are often dictated by professional standards and overseen by professional bodies which the service provider is expected to be members of. Management can rely on the service providers' accreditation from such professional bodies.</p> <p>Additionally management takes advice from its investment consultants who carry out the due diligence in respect of the activities of the service provider</p>
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Service providers are required to produce control reports that provide independent assurance of the operation of these controls.
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> <li>- Management's process for making significant accounting estimates</li> <li>- The methods and models used</li> <li>- The resultant accounting estimates included in the financial statements.</li> </ul>	Review undertaken by Senior management.

## Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Review by senior management. Details are contained in the statement of accounts. Briefing sessions are provided to the Committee

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of level 3 investments	Replacement cost or Market approach depending upon stage of direct investments and applying discounts or fair value approach for partnerships	Free Cash Flows, EBITDA ,entry level valuation Developments in markets, private transactions	Management relies on information provided by fund managers who employ experts	These are separate for each underlying investments depending upon the business and applicable sector and wider market conditions	No
Valuation of Pension Liabilities	Full triennial actuarial valuation projection of future cashflows adjusted for inflation as per IAS 26 requirements, rolled forward annually with assumptions complying with IAS19 requirements	Validation of member and cash flow data, as well as updated information on interest rates, inflation and demographic data	Fund actuary Barnett Waddingham	Per IAS26, financial and demographic assumptions are used for estimation, including an evaluation of alternative assumptions, and sensitivity analysis is undertaken.	No
Valuation of property and pooled property	RICS valuation – global standards	Considerations of acquisitions and	Yes- registered under the RICS valuer	These are separate for each asset in the portfolio	No

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By: Jonathan Idle – Head of Internal Audit  
To: Governance and Audit Committee – 27 April 2022  
Subject: **INTERNAL AUDIT PROGRESS REPORT**  
Classification: Unrestricted

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**Summary:**

This Progress Report details summaries of completed Audit reports between for the period January to March 2022.

**Recommendation:**

**The Governance and Audit Committee note the Internal Audit Progress Report for the period January to March 2022.**

**FOR ASSURANCE**

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**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 for the period January to March 2022 together with the resulting conclusions, where appropriate.

**2. Recommendation**

- 2.1 Members are requested to note the Internal Audit Progress Report for the period January to March 2022.

**3. Background Documents**

Internal Audit Progress Report.

**Jonathan Idle, Head of Internal Audit**

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**INTERNAL AUDIT PROGRESS REPORT**  
**GOVERNANCE AND AUDIT COMMITTEE**  
**27 April 2022**

## 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 12 summaries of completed work between January to March 2022.

## 2. Key Messages

- 12 audits have been finalised in the period reported. See **Appendices A and B**
- 40 of 55 audits from the 2021/22 audit plan are either in planning, in progress or at reporting stage
- 39 grants / certifications have been certified to date. See **Appendix C**
- 19 of 21 actions from the External Quality Assessment (EQA) previously reported have now been completed. See **Appendix D**

## 3. Updates

### 3.1 Internal Audit Plan

This report provides an update on the work completed between January to March 2022 against the 2021/22 Audit Plan.

Since the previous Committee, progress has continued with 34% of the Plan now either completed or at Draft Report stage. A further 37% of the Plan is either in planning or currently in progress. Updates regarding the ongoing substantive pieces of work will be reported to July Governance & Audit Committee. Detail of the status of the overall completion of the Audit Plan is documented at **Table 1** below.

**Table 1 – Status of 2021/22 Audit plan**

Status	No Audits	%
Not Started	0	0%
Planning	6	11%
Fieldwork	6	11%
Draft Report	3	5%
Complete	16	29%
Ongoing	8	15%
Deferred	16	29%

Due to the emergence of the significant issue surrounding SEND Transport, a number of planned audits have now been deferred into 2022/23. This is to ensure adequate resource is available to undertake this significant piece of work. Deferrals include the following pieces of work:

- Future of Sessions House
- Information Technology Risk Management
- Risk Management (Position statement has been produced for 21/22)
- Safeguarding Assurance Map (ASCH)
- Safeguarding Assurance Map (CYPE)
- Schools Financial Services
- Engagement of Consultants
- Provider Failure

**Table 2 – Summary of Audits by Committee Meeting**

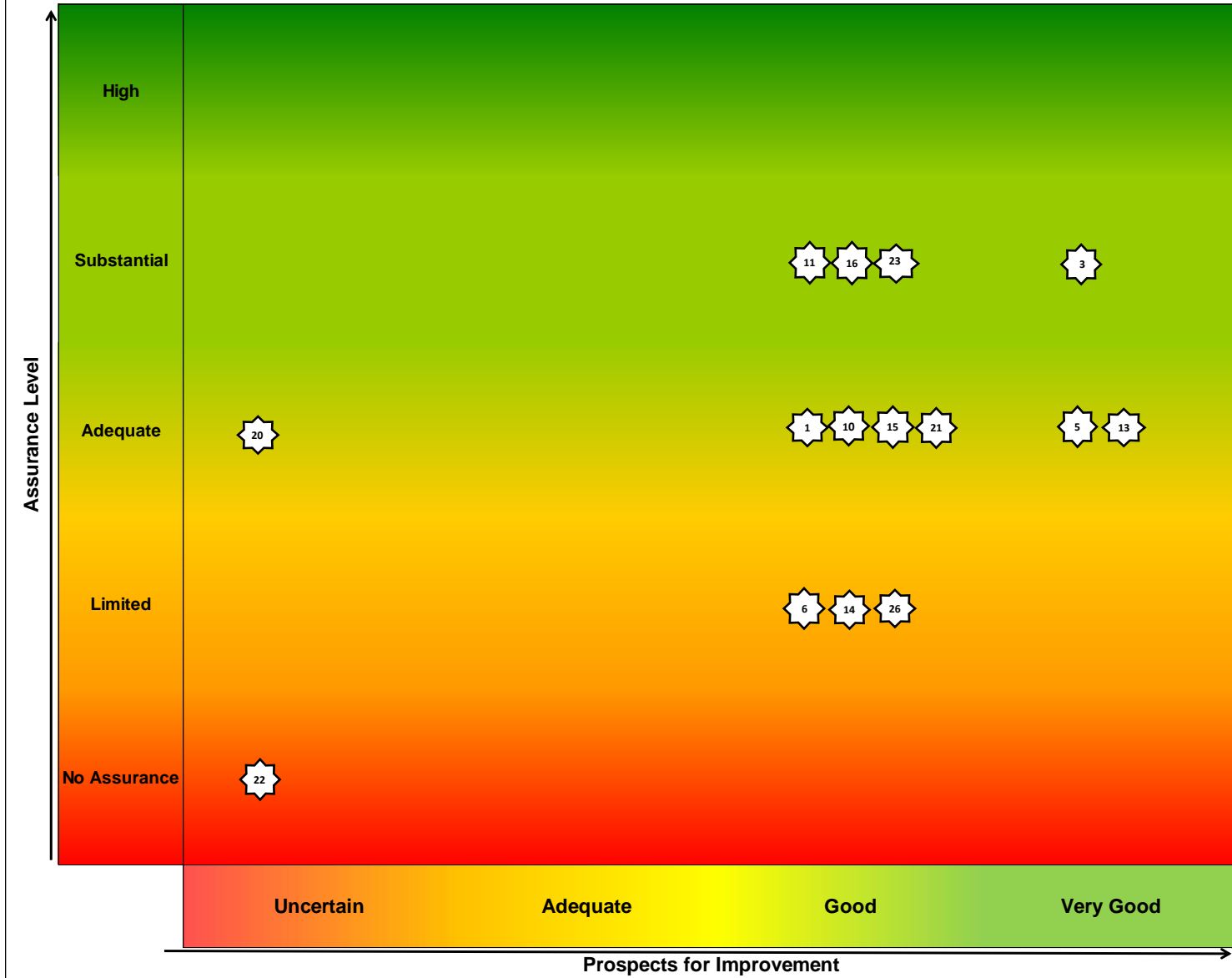
<b>Governance &amp; Audit Committee – 30 November 2021</b>			
	<b>Audit</b>	<b>Assurance</b>	<b>Prospects for Improvement</b>
1	Schools Themed Review - Cyber Security ( <b>EXEMPT</b> )	ADEQUATE	GOOD
2	Imprest Accounts Follow-up ( <b>EXEMPT</b> )	N/A	N/A
3	ACCESS Pool	SUBSTANTIAL	VERY GOOD
4	Strategic Commissioning Follow-up	N/A	N/A
5	Cyber Security - Management of Backups for Applications, Data and active Network Devices ( <b>EXEMPT</b> )	ADEQUATE	VERY GOOD
6	Records Management	LIMITED	GOOD
7	Information Governance Assurance Map Update	N/A	N/A
8	ASCH Day Care Centre Review ( <b>EXEMPT</b> )	N/A	N/A
9	Sessions House Data Centre Failure – Lessons Learnt Review ( <b>EXEMPT</b> )	N/A	N/A
<b>Governance &amp; Audit Committee – 25 January 2022</b>			
10	Searchlight – Data Breaches	ADEQUATE	GOOD
11	General Ledger	SUBSTANTIAL	GOOD
12	Urgent Payments Follow Up	N/A	N/A
13	Data Protection – Adult Social Care & Health	ADEQUATE	VERY GOOD
14	Provider Invoicing	LIMITED	GOOD



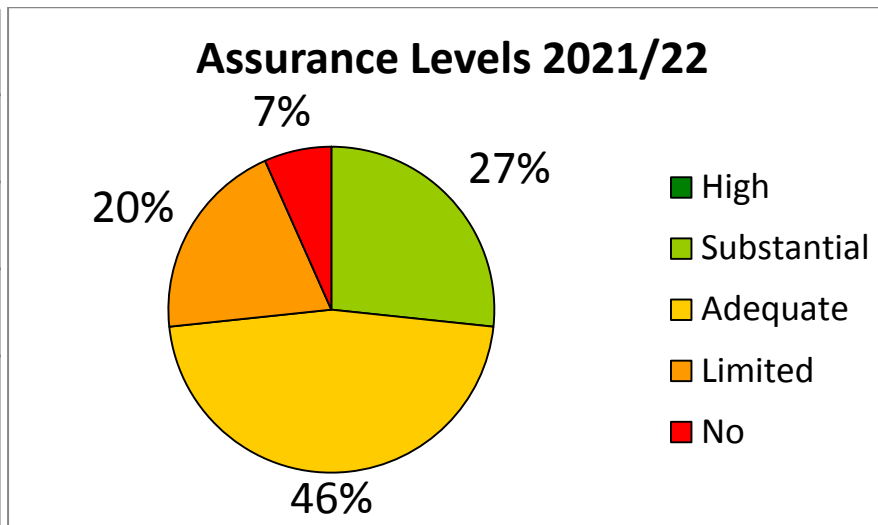
**Governance & Audit Committee – 27 April 2022**

15	Strategic Reset Programme – Top Tier Governance	ADEQUATE	GOOD
16	Data Security Protection Toolkit Audit	SUBSTANTIAL	GOOD
17	ICT Assurance Map ( <b>EXEMPT</b> )	N/A	N/A
18	Strategic Reset Programme – People Strategy	N/A	N/A
19	Risk Management – Position Statement	N/A	N/A
20	ICT Cloud Strategy, Security and Data Migration	ADEQUATE	UNCERTAIN
21	Declaration of Interests Members	ADEQUATE	GOOD
22	Traveller Service – Site Allocation & Pitch Fee Collections	NO ASSURANCE	UNCERTAIN
23	New Grant Funding	SUBSTANTIAL	GOOD
24	Ashford Sevington Grant Certification	N/A	N/A
25	CIPFA Financial Management (FM) Code Management Letter	N/A	N/A
26	Property Infrastructure – Functions and Processes Transferred to KCC from Gen2	LIMITED	GOOD

2021/22 Audit Assurance Levels and Prospects for Improvement of Audits



Assurance Level	No	%
High	0	0%
Substantial	4	27%
Adequate	7	47%
Limited	3	20%
No	1	7%



### 3.2 Grant Certification Work:

Internal Audit work on grant certification provides an essential service for the Council. Although it is not audit opinion work, the Audit team’s schedule of grant certifications is an ongoing commitment of Internal Audit resources which requires adherence to strict timescales for the certification of claims submitted.

In 2021-22, the team has audited and certified 39 Interreg grant claims with a value of €3,896,962 with a further 2 grant claims currently in progress. Additional “On the Spot” (enhanced re-audit) for 4 grant projects have been completed with a further 7 On the Spot checks currently in progress.

The Audit team also certify Interreg grant claims for external clients with 4 claims having been certified this year.

Grant work is also completed by the Audit team in respect of validating expenditure of various UK Government Grants awarded for activities such as Highways Travel Demand Management and Bus Service Operators Grant.

Details of all certifications can be seen at Appendix C.

### 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.

Since the previous Committee, the recruitment of a Principal Auditor (IT Specialist) has been successful, and the recruitment of a Principal Auditor on a Fixed Term Contract has also been concluded.

There has been a reduction in the number of contract auditors resourced to support Audit Plan delivery.

### 3.4 External Quality Assessment

A full update on the External Quality Assessment (EQA) Action Plan, as originally reported to the Committee in July 2021, is presented at **Appendix D**. The EQA undertaken in 2021 identified 21 actions which consisted of 8 actions requiring review and 13 actions that were required to be considered. In summary, good progress has been made in respect of the identified as part of the EQA with 19 of the 21 actions now considered as 'complete'. The remaining 2 actions are considered to be 'in progress' and a way forward has been determined to ensure that these actions are embedded into Internal Audit processes.

Category	Recommendations Raised	To Review	Consider
Resources	3	1	2
Competency	5	4	1
Delivery	5	3	2
Enhancements for Consideration	8	N/A	8
<b>Total</b>	<b>21</b>	<b>8</b>	<b>13</b>

Complete	In Progress	Open Actions
3	0	
4	1	C3. Engagement Plans
4	1	D5. Communication
8	0	
<b>19</b>	<b>2</b>	

Full details of the EQA action plan can be found at **Appendix D**.

## 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.

Audit Definitions are provided at **Appendix E**.

(A) Adult Social Care and Health	(B) Children, Young People and Education
(C) Growth, Environment and Transport Cross Directorate	(D) Strategic and Corporate Services
RB27-2022 - Traveller Service - Site Allocation and Pitch Fee Collections Ashford Sevington – Grant Certification	CA07-2022 – Risk Management – Position Statement CS01-2022 – CIPFA Financial Management Code RB01-2022 – Declaration of Interests (Members) RB04-2022 – Information Governance – DSP Toolkit RB06-2022 – New Grant Funding RB07-2022 – People Strategy - Strategic Reset Programme RB08-2022 - Property Infrastructure - Functions and Processes Transferred to KCC from Gen2 RB11-2022 - Strategic Reset Programme – Top Tier Governance ICT01-2022 – Cyber Security Assurance Map (EXEMPT) ICT03-2022 - IT Cloud Strategy, Security and Data Migration
(E) Cross Directorate	

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## Appendix A – 2021/22 Internal Audit Plan Status and Assurance Summary

Ref	Audit	Status	Assurance
CA01	Annual Governance Statement	Planning	
CA02	Corporate Governance	Ongoing	
CA03	Equalities Act 2010 Duties	In Progress	
CA04	Future of Sessions HQ		Deferred to 2022/23
CA05	Information Governance Assurance Mapping Update	Final Report	N/A – GAC November 2021
CA06	Records Management Follow Up		Deferred to 2022/23
CA07	Risk Management	Final Report	N/A – GAC April 2022
CA08	Strategic Commissioning		Deferred to 2022/23
CS01	CIPFA Financial Management Code	Final Report	N/A – GAC April 2022
CS02	General Ledger	Final Report	Substantial – GAC January 2022
CS03	Imprest Accounts Follow Up		Deferred to 2022/23
CS04	Payroll	Draft Report	
CS05	Pension Scheme Admin		Deferred to 2022/23
CS06	Urgent Payments Follow Up	Final Report	N/A – GAC January 2022
CR01	Annual Audit Opinion	Ongoing	
CR02	Annual Governance Statement	In Progress	
CR03	Information Governance Steering Group	Ongoing	
CR04	Provider Invoicing	Final Report	Limited - GAC January 2022
RB01	Declaration of Interests (Members)	Final Report	Adequate – GAC April 2022
RB02	Engagement of Consultants		Deferred to 2022/23
RB03	Enterprise Business Capabilities (Oracle) – Strategic Reset Programme	Ongoing	
RB04	Information Governance – DSP Toolkit	Final Report	Substantial – GAC April 2022
RB05	KCC Estate Review – Strategic Reset Programme	Ongoing	
RB06	New Grant Funding	Final Report	Substantial – GAC April 2022
RB07	People Strategy – Strategic Reset Programme	Final Report	N/A – GAC April 2022
RB08	Property Infrastructure – Functions and Processes Transferred from Gen2	Draft Report	Limited – GAC April 2022
RB09	Public Health – Covid 19 Ring Fenced Grants	In Progress	
RB10	Schools Financial Services		Deferred to 2022/23
RB11	Strategic Reset Programme – Programme Governance	Final Report	Adequate – GAC April 2022
RB12	Contract Management (ASCH)	Draft Report	
RB13	Data Protection (ASCH)	Final Report	Adequate – GAC January 2022

Ref	Audit	Status	Assurance
RB14	Individual Contracts with Care Providers (ASCH)		Deferred to 2022/23
RB15	Making a Difference Every Day (MADE) Assurance Board	Ongoing	
RB16	Provider Failure (Assurance Mapping)		Deferred to 2022/23
RB17	Safeguarding Assurance Map (ASCH)		Deferred to 2022/23
RB18	Supervision of Social Workers	Planning	
RB19	Accommodation for Young People / Care Leavers Follow Up	In Progress	
RB20	Business Continuity Planning (CYPE)	Planning	
RB21	Change for Kent Children – Strategic Reset Programme	Ongoing	
RB22	Foster Care – Transition to Shared Lives		Deferred to 2022/23
RB23	Information Governance (CYPE)	Planning	
RB24	Safeguarding Assurance Map Update (CYPE)		Deferred to 2022/23
RB25	School Themed Review – Corporate Credit Cards	In Progress	
RB26	SEN Assurance Mapping		Deferred to 2022/23
RB27	Traveller Service – Site Allocation and Pitch Fee Collections	Final Report	No Assurance - GAC April 2022
RB28	Highways Term Maintenance Contract	Ongoing	
RB29	Inland Border Posts / Decision Making and Financial Management	Planning	
RB30	Kent and Medway Business Fund	In Progress	
RB31	Kent and Medway Energy and Low Emissions Strategy		Deferred to 2022/23
RB32	New Local Infrastructure Projects Across Kent (SELEP)	In Progress	
ICT01	Cyber Security Assurance Map Update	Final Report	N/A GAC April 2022
ICT02	Information Technology Risk Management		Deferred to 2022/23
ICT03	IT Cloud Strategy, Security and Data Migration	Final Report	Adequate - GAC April 2022
ICT04	IT Data Security Audit for DSP Toolkit	Planning	
ICT05	Prevention of ICT Data Centre Outages Follow Up	Final Report	N/A GAC November 2021

## Appendix B – Summaries of Completed Audit Reviews

### CA07-2022 – Risk Management – Position Statement

<b>Audit Opinion</b>	<b>N/A</b>
<b>Prospects for Improvement</b>	<b>N/A</b>

The purpose of this was to provide a position statement for Risk Management. Due to the developing coordination of our assurance activities and the need to concentrate Internal Audit resources on other key critical areas for the Council at this time, our full audit of Risk Management will be deferred into the 2022/23 KCC Audit Plan. Internal Audit have confidence in placing reliance on the Risk Management function which is based on the factors set out below:

Risk Management has previously received positive assurance over a number of years as detailed below:

Year	2016/17	2017/18	2018/19	2019/20	2020/21
Approach	Corporate & Divisional Risk Registers	Risk Culture	Corporate Risk Register	Themed Audit	Themed Audit
Opinion	Substantial	Substantial	High	Substantial	Substantial
Prospects for Improvement	Good	Good	Good	Good	Very Good

During the course of 2021/22, the activities of the Risk Management team and Internal Audit have included the following:

- Regular Risk Management reporting to Governance & Audit Committee for the Corporate Risk Register and arising risks.
- Attendance at the Risk Management Network re-established during 2021/22.
- Collaborative working and information sharing on specific projects such as ICT Sessions House Outage.
- Training delivered by Risk Management to the Internal Audit Team Meeting.
- Final Audit reports being shared with the Corporate Risk Manager for consideration in the Risk Management processes.

Delay of the audit will also provide sufficient time for the revisions of the Risk Management Policy and Strategy, finalised in February 2021, to become embedded within Council processes. Therefore, to maximise the value added in this audit area, it will now be undertaken as part of the 2022/23 Internal Audit Plan.



## CS01-2022 – CIPFA Financial Management Code

Audit Opinion	N/A
Prospects for Improvement	N/A

### Introduction

As part of the 2021/22 Audit Plan, it was agreed that Internal Audit would undertake a review of KCC's compliance with the CIPFA Financial Management (FM) Code. The aim of the audit was to provide assurance that the FM Code has been adopted, through compliance with the 17 financial management standards. A summary of the standards is attached in Appendix B.

### Background

The CIPFA Financial Management Code (FM Code) was published in October 2019 and provides guidance for good and sustainable Financial Management in local authorities. By complying with the principles and standards within the Code, authorities will be able to demonstrate their financial sustainability. The first year of 'full compliance' with the Code is 2021-22.

Separately, CIPFA was commissioned by the Finance Division to undertake a review of 'how financial management is currently undertaken across the Council and to offer guidance and advice on how it can be improved'. It was originally anticipated that this work by CIPFA would include an assessment of the Council's compliance with the 17 financial management standards in the FM Code, although this element was subsequently considered not to be required, given the depth of their review. The review was undertaken during the period June–August 2019, and their 'draft final' report (version 1.3) was issued in September 2020. No further versions of the report have been received. This review, was not, however, a review against the CIPFA Financial Management Code.

The Council's financial management was assessed against best practice using CIPFA's FM Model. Overall, the Council was rated as three stars out of five. A summary of the Council's star ratings across the four management dimensions and three financial

### Internal Audit Observations

#### Self-assessment against the CIPFA FM Code

- Under the CIPFA FM Code, it is expected that finance teams undertake a self-assessment of compliance against the 17 standards set out in the CIPFA FM Code. This is being widely carried out by other Local Authorities and reported to their Audit Committees. Indeed, External Audit have confirmed that this is something they expect to be available to then when they carry out their 2021-22 audit.
- A copy of KCC's self-assessment against the Code was requested, but was only provided to Internal Audit on 14<sup>th</sup> April 2022 following the issuing of a Draft Management Letter by Internal Audit and subsequent post audit meeting, this being several months after the commencement of the audit. Given the timing of receipt of this key document, it has not been possible for Internal Audit to review the self-assessment in advance of completing this Management Letter.
- It is essential for the Council's Annual Governance Statement that the Council reports the outcome of the self-assessment against the CIPFA FM Code.

#### 2020 CIPFA FM Review:

##### *Compliance with the CIPFA FM Code*

- The CIPFA report in September 2020 states that 'Kent County Council complies with the requirements of the FM Code in all material aspects.' However, it is unclear which aspects of the Code were assessed (or were not fully complied with) as the level of detail in the report is limited.

##### *Recommendations and Improvement Plan*

- The CIPFA report highlighted areas of strength and also includes a number of recommendations which would improve the Council's star rating in most of the scored areas.
- CIPFA also provided a draft improvement plan based on the report's recommendations. The improvement plan provided to Internal Audit for review included comments made by KCC Finance in January 2021, but did not detail which recommendations were subsequently implemented, how, who by or when. Internal Audit has received verbal assurances that the action plan was completed, but has not yet been provided with supporting documentation to support this assertion.

management styles is set out below.

<b>CURRENT FINANCIAL SNAPSHOT</b>  (from CIPFA's Sept 2020 draft report)	<b>Management Dimensions</b>			
<b>Financial Management Style</b>	Leadership	People	Processes	Stakeholders
Delivering Accountability	**	**	***	*****
Supporting Performance	**	**	*	**
Enabling Transformation	***	***	*	****
<b>Overall Rating</b>	***			

**Conclusion**

Given the late receipt of the self-assessment against the CIPFA FM Code, Internal Audit is unable to provide an assurance opinion on whether the Code has been adopted by Kent County Council. Evidence was not made available in a timely manner to demonstrate progress with a self-assessment against the Code and implementation of the action plan in response to the CIPFA FM review in 2020.

Internal Audit will carry out their review of the self-assessment against the CIPFA FM Code in the coming weeks and a further update will be provided to the next Governance and Audit Committee.

## RB01-2022 - Declaration of Interests (Members)

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

Internal Audit's overall Audit Opinion of **Adequate** is based on the following Observations, Key Strengths and Areas for Development identified:

### Observations

- There is no requirement for mandatory training for members which has previously been raised by Internal Audit.
- Audit fieldwork (conducted on 18<sup>th</sup> & 19<sup>th</sup> January 2022) was restricted to Members who had a published declaration of interest on the KCC website.

### Key Strengths

#### Governance Arrangements

- All current Members had a signed and witnessed Acceptance of Office form.

#### Policies & Procedures

- The Members page on KNet continues to be developed and has been reviewed to identify where they are any gaps in the content published. The Member's page is being updated on a weekly basis providing a valuable resource for training and guidance.
- The following guidance is available to Members - Member Handbook, Kent Code of Member Conduct and the Constitution.
- The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to make sure decisions are clear, efficient and accountable to local people.

#### Induction & Training

- Mentoring of new Members was clearly recognised as being beneficial. It is planned that the experiences of new members will be used to plan for a mentoring scheme.
- The KNet Members' video and presentation library contains recording of training, induction and briefing sessions.
- A general induction for new Members took place in July 2021.

### Areas for Development

#### Register of Interests

- At the time of audit fieldwork (January 2022) only 31 (39%) of Members had a published Register of Interest (ROI).
- The quality of completion of the register of interests varied from Member to Member suggesting that there is some ambiguity in terms of requirements. This was further apparent upon the review of related party declarations.
- The National Fraud Initiative (NFI) identified a small number of Members with business interests, some of which had not been declared.
- Declaration of interests tend to be declared upon election only and not updated throughout the term. An overall Register of Members Interests is not held and maintained by the Monitoring Officer.

#### Committee Declarations

- Testing of Committees identified instances where declarations had not been sought and instances where it was unclear whether conflicts existed.

#### Induction & Training

- There is no requirement for mandatory Member training which has been previously raised (RB01-2018 – Member Induction & Training – Issue 1 – Mandatory Training) however, there is a lack of appetite to introduce member training and therefore thus has not been raised again as this is currently an open issue.

### Prospects for Improvement

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

- Adequate actions plans have been developed and additional resource has been requested by the service to ensure that issues highlighted in the report will be addressed.

### Summary of management responses

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

**Declarations of Interest**

- Members are responsible to keep their own record of Register of Interests (RoI) updated. All Members had completed and returned their RoI and are reminded every six months of the need to notify the Monitoring Officer of any changes.
- All published RoI forms had been signed off / approved by the Monitoring Officer.
- From Google searches performed, no Members were identified who had a potential business interest which had not been declared on their RoI.
- No matches were found between the Members interests and the Charities Commission website

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

The Data Security and Protection Toolkit (DSP Toolkit) sets out the standard for cyber and data security for health and social care organisations and their partners.

There is a clear submission framework which details roles and responsibilities, timetable, allocation of assertions to ‘owners’, process for gathering the evidence, guidance to complete the toolkit and governance arrangements.

Internal Audit found that for the 10 sub-assertions tested in detail, the quality of evidence provided to support the Council’s submission and self-assessed rating was not always adequate and up to date.

Internal Audit’s overall Audit Opinion of **Substantial** is based on the following Key Strengths and Areas for Development:

**Key Strengths**

- The Senior Information Risk Officer (SIRO) and supporting officers are responsible for the submission of the DSP Toolkit 2021/2022.
- This is an approved submission framework which enables the assignment of roles and responsibility (with deadlines) to assertion owners. The framework and the processes are reviewed annually.
- Assertions assessed as part of the audit were found to have met the requirements set out in the DSPT.
- An on-going assertion evidence update regime is in place, to ensure the relevance of the evidence held during the year
- Dedicated support staff administer the Toolkit, including archiving of the MS Teams tool and SharePoint DSP Toolkit information
- There is strong communication between all staff involved. Tools such as MS Teams and SharePoint are used effectively to evidence updates and respond to queries.

**Areas for Development**

- Additional information was required to fully meet and support the toolkit requirements for a number of areas. In this instance it was determined that an issue was not required as Internal Audit were able to obtain the information during the course of testing however, this was discussed at the exit meeting regarding the importance of ensuring sufficient information is available.
- Though evidence was obtained that policies had been reviewed on a timely basis, this had not been recorded on each policy:

**Prospects for Improvement**

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

- Though there are good levels (93.71% in September 21) of training courses linked to the DSPT there is a continuing trend of training levels falling below the target level of 95%. It is noted that staff changes, such as new recruitment and change of role of existing staff may affect when the target level is achieved.
- As identified in the key strengths, Officers involved have strong communication between them and roles are understood.

**Summary of management responses**

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

**RB06-2022 – New Grant Funding**

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

Internal Audit’s overall Audit Opinion of **Substantial** is based on the following Key Strengths and Areas for Development identified.

**Key Strengths**

- New grants are identified via a number of different means and captured in a central spreadsheet which had been reconciled by KCC Finance to Covid logs and individual grant determinations.
- All grants are assigned an individual project code to facilitate monitoring and analysis of spend.
- Clear arrangements are in place for the governance, oversight and reporting of individually significant grants.
- Grants are subject to close monitoring and control of spend.
- All staff interviewed demonstrated a good understanding of the grant for which they were responsible, the grant conditions and rules of compliance.
- Where required, provider returns had been consistently submitted in accordance with the grant conditions.
- Key Decisions related to new grants were substantiated by reports and had been appropriately made and recorded.
- Where grants had been paid on the basis of a claim from individual providers a grant agreement had been set-up, including the requirement to return any unspent funding.

**Areas for Development**

- Fraud risk assessments are not routinely considered and performed, and none of the grants reviewed in this audit has been subject to a fraud risk assessment.

**Prospects for Improvement**

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

Lead officers for grants are to be made responsible for undertaking fraud risk assessments and to report and get authority where there are extenuating circumstances which mean checks cannot be completed.

**Summary of management responses**

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

## RB07-2022 – Strategic Reset Programme – People Strategy

<b>Audit Opinion</b>	N/A
<b>Prospects for Improvement</b>	N/A

### Introduction

As part of the 2021-22 Internal Audit Plan, it was agreed for Internal Audit to be involved in the People Strategy (PS) project on a consultancy basis, acting as a critical friend to provide embedded assurance and advice throughout. A representative from Internal Audit attended the project group meetings in an advisory position, including review and comment on the draft Strategy as it was developed.

### Background

Over the past 18 months Kent County Council (KCC) has been significantly impacted by several factors including continuing increases in demand for services and the Covid-19 pandemic, which has been one of the biggest challenges faced by KCC. These have reinforced the pressure to deliver services in new and more flexible ways to support residents. The Strategic Reset Programme (SRP) was introduced in 2020 to help KCC in adopting new ways of working to be more resilient, agile, and innovative. Included within this SRP is the People Strategy workstream. The current People Strategy (PS) covers 2017-2022 and the delivery of the new PS was accelerated so that it could be finalised by the end of 2021 and a new Strategy to be developed for 2022. The priorities for the new PS included higher focus on management development and a new model for change management, enabling the move to flexible working as well as supporting diversity and inclusion. The new People Strategy underpins the successful delivery of all aspects of SRP. A project group was formed and given the task of assessing the 2017-2022 PS and developing this to include the elements required to support staff and managers with implementing all aspects of SRP and on-going service delivery.

### Internal Audit Observations

A dedicated working group including experienced and representatives from all relevant teams was formed to deliver the People Strategy project. This group demonstrated commitment to the project and developed the new PS through regular meetings and the sharing of documents. Internal Audit attended the working group meetings and provided constructive comments throughout the project.

The proposed new PS was reported to Personnel Committee in line with the agreed timescale target of January 2022, where it was approved.

The new PS is split into clear sections which include an outline of the vision and aspirations and sets the framework and principles for the next 5 years, these being:

- Maximising organisational capacity, capability, and development
- Creating an environment for people to thrive
- Supporting our people as individuals
- Attracting, retaining and maximising out talent

In addition to the new Strategy, a set of focused Key Performance Indicators have been produced through which to evaluate the impact of the Strategy.

### Conclusion

The success of the strategy will be determined not only by the Strategy itself but by the individual and collective accountability taken by Leaders and Managers to deliver their roles in a way that reinforces inclusive practice, connects to the strategic themes and provides clarity and ownerships for decisions and actions taken.

It is intended to build on KCC strengths, learn from one another and support the future goals of the organisation by retaining and attracting talented individuals, who are celebrated for their unique contribution.

Further work will include producing a KPI dashboard to gauge the success/ impact of the new Strategy.

This memorandum is to be provided to the Governance and Audit Committee in April 2022 for information.

**RB08-2022 – Transfer of Property Functions to KCC from GEN2 – Performance Management**

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

Property Services has been at the forefront of KCC’s response to the Covid-19 pandemic. Coincident with the transfer from GEN<sup>2</sup>, Property Services had to manage the suspension of capital projects and essential maintenance during the first lock-down and the consequences to the Council’s plans to meet its obligations to provide school places. It also had to implement extensive measures to ensure that KCC’s offices were “Covid-secure” and it has had a key role in the introduction of KCC’s flexible-working practices.

This review found that Property Services collects and documents data about its activities. There is also extensive engagement with stakeholders. However, there was a low level of awareness of KCC’s Performance Management Toolkit. Consequently, the Service Areas have not adopted the guidance. Annual business planning has not considered objectives for business-as-usual activities and there have not been any recent reviews that confirm that Property Service’s performance indicators, including its corporate performance indicators, are fit for purpose.

Internal Audit’s overall Audit Opinion of Limited is based on the following Key Strengths and Areas for Development:

**Key Strengths**

- Across Property Services, there is extensive engagement with stakeholders. Except for the Facilities Management Service Area, the engagements focus on activities rather than performance.
- Where the four reviewed Service Areas have control over their resources, their monitoring of their activities is not overly dependent on either key individuals or bespoke systems.
- There is a procedure within the Infrastructure Division where risks reported on the risk management system, JCAD, are formally reviewed every two months through meetings between the Strategic Projects Manager and the officers responsible for the Division’s risks. The results from these reviews are presented to the Division’s Management Team.

**Areas for Development**

- Performance management across the four reviewed Service Areas does not accord with KCC’s Performance Management Toolkit and Data Quality Policy, both of which are based on good practice for ensuring that performance information is fit for purpose.
- Property Services does not use performance information in a systematic way in its risk management reviews.
- Property Services has not tested the extent that its corporate performance and activity indicators are fit for purpose, focus on the delivery of business priorities, and provide a balanced view of the performance across the business.

**Prospects for Improvement**

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

- Management have accepted the issues identified and appropriate action plans have been developed with action owners assigned.

**Summary of management responses**

	<b>Number of issues raised</b>	<b>Management Action Plan developed</b>	<b>Risk accepted and no action proposed</b>
High Risk	2	2	N/A
Medium Risk	1	1	N/A
Low Risk	0	0	N/A



## RB11-2022 – Strategic Reset Programme (SRP) Top-Tier Governance

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

The Corporate Management Team (CMT) established the SRP by learning lessons from previous transformations undertaken by the Council. Ambitions for the SRP were set collectively by the Strategic Reset Programme Board (SRPPB). These were refreshed in October 2021. Members of the SRPPB have invested considerable time to the Programme. The SRPPB established a dedicated SRP Programme Team, whose members collectively have the skill sets needed to support the 13 programmes as they navigate through stakeholder management and the SRP's interdependencies.

There are considerable demands and expectations on members of the SRPPB; which are undertaken alongside substantive roles. Concerns have been raised during the audit that members of SRPPB do not always have the time to make informed decisions. This includes the need to understand the criticality and interdependencies of the wider SRP delivery risks within each of the 13 programmes.

Members of the SRPPB do not yet have a Programme-wide view of risk appetite that encompasses aggregate risk.

A Strategic Outline Case has been or will be prepared for each of the individual programmes. However, some lack robust rationales to support the required investment.

Internal Audit's overall Audit Opinion of **Adequate** is based on the following Key Strengths and Areas for Development

### Key Strengths

#### A Consistent Understanding of the Council's Ambitions for the SRP

- The ambitions for the SRP were established through robust engagement with key stakeholders.
- The six ambitions, with detailed descriptions, were incorporated into the SRP Handbook, and published on KNet.
- At the meeting of the SRPPB in October 2021, there was an informed discussion to review and revise the ambitions.
- There is a consistent view in the SRPPB and among Senior Responsible Officers (SROs) that the Programme is a vehicle for prioritising delivery of key programmes and projects in a coordinated, cohesive, and collegiate manner.

### Areas for Development

#### A Consistent Understanding of the Council's Ambitions for the SRP

- Members of the SRPPB do not receive frequent, comprehensive, and real time updates about the alignment of the 13 programmes with the ambitions of the Programme.

#### Building an SRP Community

- The Senior Responsible Officers, who are not on the SRPPB, and programme leads do not collectively engage with one another.

#### Sustaining the Commitment to Deliver the SRP's Objectives

- There is no mechanism in place to consider where changes are needed to the SRP and to make adjustments as needed.
- Succession planning for, and induction of new senior officers are not formalised processes.
- There has been no formal assessment completed to determine whether SRPPB members are able to meet SRP responsibilities, alongside their substantive roles.
- SRP specific guidance directing how members of the SRPPB manage conflicts of interest does not exist.
- There are concerns that the SRP Programme Team does not have the capacity to meet expectations of some programme delivery teams.

#### Momentum in Delivering the SRP's Objectives

- Within the SRPPB there is limited assurance that progress across all SRP programmes is being accurately reported, primarily because programmes do not have clear milestones.

#### Risk Appetite Necessary to Deliver the SRP's Objectives

- There is not a Programme-wide view of risk appetite, Programme-wide mitigations, and delivery of benefits.

### Prospects for Improvement

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

- The Senior Responsible Officers for the 13 programmes were responsible for keeping their respective Cabinet Members informed regarding development and / or progress. The SRP Programme Team did not have a role to ensure that Cabinet Members were kept informed about the wider SRP. Since the appointment of a Stakeholder Manager to the SRP Programme Team, the Team has acknowledged the importance of more direct engagement with both Cabinet Members and the wider pool of Members. The Team is working towards an All-Member briefing and

#### Sustaining the Commitment to Deliver the SRP's Objectives

- The seniority of the members of the SRPPB and the time commitment to the SRP, through weekly meetings, confirms the Leadership's commitment to the Programme.
- SRPPB members actively engage in discussing updates from the 13 programmes.
- The SRPPB have a set of agreed operating principles.
- There is an SRP Programme Team that is dedicated to supporting the successful delivery of the SRP.
- The SRP Programme Team has grown its capability from both existing KCC resources and external recruitment. As the Team's capability has grown, the SRP has become less reliant on direct operational support from PwC.

thereafter to provide quarterly briefings for Members and to begin regular Cabinet Members Meeting updates.

- Members of the SRP Programme Team have provided SRP presentations to some staff groups across KCC on an ad hoc basis. While these engagements are not yet part of a systematic programme, Internal Audit noted that the SRP Programme Team was preparing a stakeholder engagement plan that encompasses staff engagement.
- There was a deliberate decision to set communications to staff about the SRP in the context of the Council's strategic narrative around Covid Recovery. For 2022, there are plans to raise a greater understanding and awareness of the SRP to the wider staff population through case studies that bring to life what the SRP means for the Council and how the programmes are delivering change and contributing to the SRP's ambitions.
- All parties interviewed by Internal Audit confirmed that the SRPPB has generally been a forum that engaged positively when programme delivery teams came before the Board.
- The SRPPB recognises there is a need to introduce a process to determine whether programme update reports received provide full and honest representation of the current position.
- The SRO for the SRP and the Strategic Lead engaged positively and constructively with Internal Audit's findings and prepared clear management actions for eight of the nine issues. While the risk associated with one of the Issues was accepted, the SRO for the SRP will share organisation succession planning guidance with all SRP Board Members and SRO .

#### Summary of management responses

	Number of issues raised	Management Action Plan developed	Risk accepted and no action proposed
High Risk	1	1	0
Medium Risk	7	6	1
Low Risk	1	1	0

**RB27-2022 – Traveller Service – Site Allocation & Pitch Fee Collections**

<b>Audit Opinion</b>	<b>No Assurance</b>
<b>Prospects for Improvement</b>	<b>Uncertain</b>

The last audit completed regarding the Gypsy and Traveller Service (GTS) was in 2014 and this identified several areas for improvement including inconsistent processing of pitch allocations and lack of central records being retained. In 2014, an audit opinion of Limited was assigned as significant issues were identified that could cause high risk to the Council.

The issues identified as a result of the current audit are identical to those that were highlighted 8 years ago.

Additionally, further significant issues have also been identified, such as the current GTS Policy being out of date, the new case management system not being used, and a high level of outstanding debts owed by pitch tenants with no debt recovery policy or procedure in place.

A case management system was implemented on 1<sup>st</sup> June 2021; however Internal Audit have identified that this does not hold up to date records and although there is some data on the system it is not possible to ascertain what or how much as the reporting functionality cannot currently be used.

There is also a historic undocumented agreement in place between KCC and water suppliers whereby KCC pays the water supply bills for the pitches managed and recover the debt from the tenants. This is administratively costly and has proved not to be effective as large amounts are owed to the Council by tenants for their water bills.

Furthermore, a project carried out by the GTS has identified that all tenants have been either over charged or undercharged for their water supply.

The weaknesses identified with the new case management system are perhaps more concerning, as GTS has invested in a system that is not being used effectively and has not been populated with the required data nearly a year after initial implementation.

**Areas for Development**

- The current GTS Policy is dated 2012 and is significantly out of date. The Policy was reviewed and updated in 2019, but the new version has not been agreed by the Environment & Transport Cabinet Committee and the service has been unable to move forward.
- The currently available process documents do not sufficiently outline the application, assessment and approval processes; including roles and responsibilities.
- The current pitch rental fees have not been formally agreed by the relevant Committee and fees have not been published in accordance with legislative guidance.
- The new case management system is not being used to its full potential.
- From the review of a sample of 12 applications across various sites, a high number of inconsistencies were identified in the records kept and the way applications have been assessed and scored.
- Staff have not received fraud awareness training or made any fraud referrals to the Counter Fraud Team.
- The current level of outstanding debt for pitch fees is £384,466 of which £323,031 (84%) is more than 60 days overdue. There is no debt recovery policy or procedure.
- The current agreement with water companies whereby KCC pays the water bills and recharges these costs to the pitch tenants is administratively costly and ineffective.
- There is currently £26,800 of funds that have been received from tenants and/or from other Local Authorities for those tenants in receipt of housing benefit but not allocated to the relevant invoice.

**Prospects for Improvement**

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

- Currently the post of Head of the GTS is vacant. Although action plans have been developed to address the issues raised in this report it is unclear whether they will be prioritised by the new post-holder or whether the timescales are realistic.
- It is unclear whether Case Management System that was purchased for the GTS is fit for purpose as a significant amount of work remains to implement it.

Internal Audit's overall Audit Opinion of No Assurance is based on the following Key Strengths and Areas for Development:

**Key Strengths**

- For a sample of tenants examined, Internal Audit established that accurate invoices had been raised for their pitch rental fees (this does not include water charges or the debt recovery of the invoices).

**Summary of management responses**

	<b>Number of issues raised</b>	<b>Management Action Plan developed</b>	<b>Risk accepted and no action proposed</b>
High Risk	8	8	0
Medium Risk	1	1	0
Low Risk	0	0	0

**ICT03-2022 – IT Cloud Strategy, Security & Data Migration Project**

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

Internal Audit’s overall Audit Opinion of **Adequate** is based on the following Key Strengths and Areas for Development:

**Key Strengths**

- Governance structure comprising 4 separate boards, terms of reference and member roles.
- There is regular status reporting to the programme boards.
- KCC ICT provided challenge to the supplier, reinforced through an action log.
- Finance had been budgeted and funded via reserve funds.
- Security of products were formally evaluated by the Compliance and Risk Team (CaRT).
- Supplier proposals were costed and reviewed and approved by KCC ICT prior to raising a purchase order.
- Changes to a Programme or Project were driven by a formal change control process, and changes and any revised costs were approved by KCC ICT.

**Areas for Development**

- Project initiation documentation should be in place for all complex projects where risks have been identified, and available to KCC ICT.
- There is a gap in Cantium resources available to fulfil the KCC ICT Programmes of work, by the original target timescales. Remaining projects to be prioritised including those not yet started to assist with organisation of resources.
- The systems used for managing programmes/ projects and storage of documentation, from brief to benefits realisation.
- There were some inaccuracies and omissions in the supplier’s status reporting.
- There is an opportunity to report the total residual risk being carried by active projects and those not yet started.
- A consolidated skills matrix to identify training gaps and skills matching to projects.

**Prospects for Improvement**

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

- KCC ICT as commissioners were subject to external factors affecting their supplier Cantium to recruit and make available resources to deliver the programme of work.
- KCC have already raised concerns with Cantium regarding resourcing of projects,

The largest influencing factor currently effecting the delivery of the ICT programmes of work was one of resource, project managers and solution architects that understood the technicalities of the KCC network and storage devices. KCC ICT as commissioners were subject to external factors affecting their supplier Cantium to recruit and make available resources to deliver the programme of work.

There is a governance structure in place which has recently been reviewed, together with the terms of reference for each of the four programme boards. There is a good level of challenge made by the Programme and Project Boards, however KCC ICT was still often presented with progress reports from Cantium that were in-part incomplete, and in error. Some of KCC ICT’s resource effort was being directed at highlighting these issues, and obtaining answers, at the monthly Programme and Project board meetings.

In many instances formal project documentation was incomplete or unavailable to KCC ICT, including project plans. Internal Audit considered that the document repositories, and methods for accurate and complete progress reporting, did not provide all the needed information to enable the Programme & Project Stakeholders to take confidence, or to make timely and fully informed decisions.

An example being that there was a time lag between Cantium generating the Project Assurance Report from the ‘Service Now’ system, prior to Cantium editing and issuing that report, and further time between the KCC ICT review and the Project Assurance Board meeting where the report is discussed. KCC ICT had no direct access to the Cantium Project Management systems, Project document repositories, and performance data. Whilst KCC ICT was encouraging Project Members (Cantium & KCC ICT) to use the Microsoft Teams folders to upload relevant documents, and to raise questions using this application, there was no formal system to facilitate real-time reporting, and to ensure that the appropriate level of project initiation documents had been created prior to the implementation phase.

The findings and Audit Opinion are at the point of fieldwork, and it is recognised that further, continuing action may have been taken since, by KCC ICT and Cantium, to resolve the current issues.

- governance, available project documentation and reporting inaccuracies.
- The Interim Head of Technology Commissioning and Strategy has, with the support of the Director of Infrastructure, been developing the relationship between KCC ICT and Cantium, and already made changes to the Programme governance.
- KCC ICT are committed to setting-up a Programme Management Office, on the client side.

**Summary of management responses**

	<b>Number of issues raised</b>	<b>Management Action Plan developed</b>	<b>Risk accepted and no action proposed</b>
High Risk	2	2	N/A
Medium Risk	3	3	N/A
Low Risk	1	1	N/A

## Ashford Sevington – Grant Certification

<b>Audit Opinion</b>	N/A
<b>Prospects for Improvement</b>	N/A

### Testing and findings

The total spent from this grant until January 2022 was £35,711,001. This is approximately £245k less than the grant received, but the Oracle download shows that there has been significant expenditure since May 2021, so it is clear that the grant will be spent in full.

16 invoices were selected from the expenditure incurred with the total value of tested expenditure being £35,829,667– 99.65% of total Capital grant received.

Total amount spent up Jan 2022	Total amount of sampled transactions	% coverage	Number of transactions reviewed	Audit findings
£35,711,001.08	£35,829,667.67	99.65%	16	All transactions tested were fully supported by evidence and comply with grant conditions

Checks completed on transactions were as follows –

- Paid in Oracle in the period
- Supporting evidence available (invoice)
- Evidence matches amount paid and description of payment recorded in Oracle
- Relates to capital expenditure on the Ashford Sevington works, and therefore eligible under the grant conditions.

### Conclusion

In our opinion, having carried out appropriate investigations and checks, the conditions applied to the highway’s capital grants have been complied with.

### Recommendation

The Head of Internal Audit and the Corporate Director Growth, Environment and Transport to sign grant declaration letters for Tranches 5.6 and 7 of the Ashford Sevington capital grant. Declaration to be sent to the team leader of the Future EU Roads Relationship (FERR) Division of the Department for Transport.

## Appendix C - Grant Certifications completed since 1/4/2021:

Grant	Description	Status as at 31/3/2022
EU Interreg - Aspire	A holistic approach to lowering obesity and unemployment rates in identified communities where the two issues are linked.	2 Claims completed
EU Interreg - BEGIN	An approach to climate resilience for cities that mimics nature's potential to deal with flooding.	2 Claims completed and 1 On the Spot complete
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 and 1 On the Spot in progress
EU Interreg – Blueprint	Upskill 18 social enterprises to training 2000 disadvantaged individuals with the skills they require to secure new jobs linked to circular economy growth (increased recycling, reverse logistics and secondary markets).	1 Claim completed
EU Interreg – Boost for Health Capitalisation	Supporting Kent based life sciences companies with internationalisation and in particular market entry in mainland Europe.	1 Claim completed
EU Interreg – C5A	Aims to deliver a whole system approach to water and flood risk management in response to current and future risks from climate change.	1 Claim completed and 1 On the Spot completed
EU Interreg – C-CARE	To deliver a range of activities linked to Covid-19 response including: <ul style="list-style-type: none"> <li>- A technology resilience voucher scheme for businesses (ED)</li> <li>- A green recovery voucher scheme for businesses (Environment Team)</li> <li>- A Covid-secure trading standards training module (Public Protection)</li> </ul>	1 Claim completed
EU Interreg – Connected Communities	To develop co-ordinated and integrated services for older people that help make communities more resilient and take early action to prevent or delay the need for long term care.	2 Claims completed
EU Interreg – Cool Towns	Spatial adaptation for heat resilience in small and medium sized cities to minimise the heat related effects of climate change.	1 Claim completed and 2 On the Spots in progress
EU Interreg – DWELL	Empowerment programme enabling patients with type 2 diabetes to access tailored support giving them mechanisms to control their condition and improve their wellbeing.	1 Claim completed
EU Interreg - Empower Care	To create resilient communities and reduce individual frailty and loneliness, addressing issues facing the care of our aging population.	2 Claims completed
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.	2 Claims completed
EU Interreg - Experience	To provide the tools and infrastructure to capitalise on the emerging trend for personalised and local tourism experiences which provide reasons to visit at any time of the year.	1 Claim completed
EU Interreg – Green Pilgrimage	Protecting natural & cultural heritage whilst developing jobs & growth along pilgrim routes by developing low impact tourism, digitalisation, pilgrim accommodation & strengthening local traditions.	1 Claim in progress
EU Interreg - H20	Overcoming barriers to integrated water and ecosystem management in lowland areas adapting to climate change.	1 Claim complete 1 On the Spot in progress



Grant	Description	Status as at 31/3/2022
EU Interreg – IMPULSE2	This project aims to support 100 Life Sciences & nutrition SMEs & production sites to help them to become more innovative, to connect to companies and business opportunities in other countries and to overcome the barriers that they face with innovation and internationalisation. The long-term benefits for SMEs will be increased knowledge, innovation capacity, international contacts, and export sales potential.	2 Claims completed
EU Interreg - Inn2Power	Supporting Kent based companies in the offshore wind sector with internationalisation & market entry in mainland Europe	1 Claim completed
EU Interreg - PATH2	Enabling women, families, and healthcare professionals to prevent, diagnose and successfully manage mild and moderate perinatal mental health issues.	2 Claims completed and 1 On the Spot in progress
EU Interreg - Prowater	Contributing to climate adaptation by restoring the water storage of the landscape via ecosystem-based adaptation measures.	1 Claim completed and 1 On the Spot in progress
EU Interreg - SCAPE	Developing landscape-led design solutions for water management that make coastal landscapes better adapted and more resilient to climate change.	2 Claims completed and 1 On the Spot completed
EU Interreg - SHIFT	Engaging with people over 45 years of age to develop a tailored sexual health and wellbeing model.	2 Claims completed 1 On the Spot in progress
EU Interreg – STAR2Cs	Overcoming the implementation gap faced by local government adapting to climate change.	1 Claim Completed
EU Interreg – Step by Step	Seeking to increase the impact of the internationally evidenced men's sheds programme in particular employment & health outcomes.	2 Claims completed and 1 On the Spot completed
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
EU Interreg - Triple A	Supporting homeowners to adopt different low-carbon technologies in their homes.	1 Claim completed
EU Interreg - Triple C	Implementing a set of cost-effective actions to reduce flooding and erosion.	2 Claims completed
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
EU Interreg - USAC	UNESCO sites across the Channel.	2 Claims completed
Department of Health and Social Care	Public Health Test and Trace grant	In progress – deferred to 2022
Department for Transport	Highways Travel Demand Management Grant	Completed
Department for Transport	Bus Service Operators Grant	Completed
Department for Transport	Ashfords Sevington works Grants	Completed
Department for Transport	Highways Block Capital Funding (Integrated Transport and Highway Maintenance)	Completed
Department for Transport	Manston Airport Inland Border Facility Site	Completed
Department for Education	Additional School and College Transport Grant	Completed

## Appendix D – External Quality Assessment – Action Plan

Ref.	Issue	Recommendation	Internal Audit Response + Action Plan	Progress Update
R1	Internal Audit Charter <b>(Consider)</b>	When the Internal Audit Charter is next revised update the requirement for the Head of Internal Audit to provide an Annual Opinion in relation to Risk Management, Governance and Internal Control.	<p><b>Response</b> Recommendation agreed.</p> <p><b>Agreed Action Plan</b> The insert will be included within the annual review of the Charter, which will be submitted to the Governance and Audit Committee in July 2021.</p> <p><b>Action Owner</b> Head of Internal Audit</p> <p><b>Due Date</b> August 2021</p>	<p><b>Complete</b></p> <p>The Audit Charter was reviewed and updated ahead of the <a href="#">July 2021</a> Governance and Audit Committee meeting.</p>
R2	Internal Audit Management <b>(Review)</b>	Specific arrangements should be implemented for client management within the new structure that allow for the Head of Internal Audit to act in a Managing Director role whilst still retaining CAE responsibility for key clients and therefore responsibility for issue of reports.	<p><b>Response</b> Recommendation agreed.</p> <p><b>Action Plan</b> The service is currently implementing a restructure. When this is completed and the accompanying changes have been embedded, a review of Chief Audit Executive (CAE) responsibilities will be undertaken in advance of 2022/23. This will include consideration of the circumstances as to if / when there should be nominated CAEs within the shared service</p> <p><b>Due Date:</b> February 2022</p>	<p><b>Complete</b></p> <p>The reason for the recommendation is acknowledged, and how some Internal Audit organisations who operate on a shared service basis with a Director of Internal Audit was considered. It is, however, concluded that it is not appropriate for the Internal Audit service at KCC to introduce a Managing Director with multiple CAEs structure.</p>

R3	2020/21 Engagement Completion <b>(Consider)</b>	Current year provision has been impacted by Covid and the team holding a number of vacancies. Where these events impact upon completion of the internal audit plan and therefore the content of the Head of Internal Audit Annual Opinion, a reflection on the advice provided by CIPFA should be referred to.	<p><b>Response</b> Recommendation agreed.</p> <p>The CIPA Guidance has been referred to throughout 2020-21 when it was necessary to make changes to the Audit Plan.</p> <p><b>Action Plan</b> In compilation of the Annual Opinion for 2020-21 to be submitted to the Governance and Audit Committee in July 2021, there will be due consideration and reference to the CIPFA Annual Opinion Guidance, with reference to be included within the Opinion Report to Committee</p> <p><b>Due Date</b> July 2022</p>	<p><b>Complete</b></p> <p>Reference to the CIPFA Guidance was made in the <a href="#">Internal Audit Annual Report 2020-21</a>, which was reported to Governance and Audit Committee on 22 July 2021.</p>
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C1	Audit Planning (Review)	<p>The current KCC risk management framework is not based on a full three lines model; an assessment of inherent risk, existing controls and assurances is therefore not available to support internal audit planning at a strategic or engagement level. Consideration of a risk is therefore focused on residual and target levels and consequently Internal Audit should determine and evidence (a) how successive annual internal audit plans provide assurance regarding each client's business objectives and risks at a corporate and directorate level, (b) transparency regarding how conflicting priorities have been resolved within the resources available, and (c) how the intended focus of areas included in the annual plan is aligned with the changed risk environment when compiling engagement plans.</p>	<p><b>Response</b> Recommendation agreed.</p> <p>The current audit planning arrangements are considered robust and a major strength of the Internal Audit service and the widespread engagement undertaken is acknowledged by stakeholders. The ability to adapt to a changing risk environment is aptly illustrated in 2020-21 with the identification of and delivery of extensive covid-related coverage and Brexit related engagement by the service. Furthermore, the compilation of an Audit Plan is based upon several different factors, not purely on theoretical considerations. Further clarification has been sought from the Assessor and will be reviewed.</p> <p><b>Action Plan</b> While, therefore, this Issue and Recommendation is not wholly considered to be reflective of the approaches undertaken by the service, as part of the continuous improvement ethos of the section to enhance existing arrangements, factors a-c will be reviewed as part of the audit planning process with a position statement for 22-23 Audit Planning to be prepared.</p> <p><b>Due Date:</b> April 2022</p>	<p><b>Complete</b></p> <p>This recommendation was reviewed / considered when developing the 2022/23 Audit Planning process.</p>
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C2	Management Objectives (Review)	The Internal Audit Service should consider focusing each audit on agreed Management Objectives for the area for review as this would help structure the engagement on significant risks and align with the associated controls that are designed to mitigate this risk.	<p><b>Response</b> Recommendation agreed</p> <p><b>Action Plan</b> The explicit focus upon agreed Management Objectives will be incorporated into the Audit Manual. This will be communicated to members of the Internal Audit Team in in-house training and development and monitored by supervisions and Audit Managers during the preparation of Engagement Plans as business as usual.</p> <p><b>Due Date</b> April 2022</p>	<p><b>Complete</b></p> <p>The Audit Manual has been updated and a training session was delivered to Internal Audit colleagues in November 2021.</p>
C3	Engagement Plans (Review)	The Internal Audit service intends to commission a Risk Based Audit training session once the current re-structure has been completed. It would be beneficial if this contained both an appreciation of risk management best practice and associated risk-based auditing methodologies and specific instruction on its development by the team. It would be beneficial if a direct link were created within the methodology to align achievement of a stated Management Objective with the basis for providing an opinion. This would also align with the functionality of the Pentana software.	<p><b>Response</b> Recommendation agreed.</p> <p>To be reviewed and implemented appropriately.</p> <p>The Internal Audit service will continue to review and refine its ongoing risk-based approach.</p> <p><b>Action Plan</b> To commission best practice risk-based internal audit training for all members of the Internal Audit Team. This will be followed up with any necessary amendments to audit approaches undertaken in the Audit Manual.</p> <p><b>Due Date</b> December 2021</p>	<p><b>In Progress</b></p> <p>Risk-based Internal Audit training has been arranged for the whole Team in January 2023.</p>

C4	Use of Pentana software <b>(Consider)</b>	The team should provide further guidance on how the software is to be used and then provide consistent instruction where necessary regarding its use as this will enhance efficient and the ability of managers to supervise audit engagements. The team might find it beneficial to create an 'Example File' which could be reviewed by staff as part of mandatory training	<p><b>Response</b> Recommendation agreed.</p> <p>The need to develop the use of Pentana to enhance efficiency is recognised.</p> <p><b>Action Plan</b> The 2021/22 Internal Audit Plan includes a provision for Pentana development which will address the factors in the issue and recommendation. Pentana development will be factored into resourcing on an ongoing basis for future years Audit Plans.</p> <p><b>Due Date</b> March 2022</p>	<p><b>Complete</b></p> <p>Several workshops have been held with Internal Audit colleagues over the last few months, to develop knowledge and awareness of how to use the system more effectively. As a result of these sessions, some updates have been made to Pentana to improve functionality and where relevant guidance notes have been updated accordingly. There will continue to be an ongoing Pentana training and development programme to maximise the team's expertise and the efficiency and effectiveness of the system.</p>
C5	Grading of Issues <b>(Review)</b>	It would be beneficial to align future grading of issues with those impact definitions used within the risk management process relating to each client's risk appetite. In the case of KCC it is suggested that where definitions may result in a risk value of 'High' (16+), this would reflect impact definitions in categories relating to 'Serious or Major' events. This would assist in both agreeing the specific risk focus of each engagement as well in assessing the relative importance of findings at the exit meeting and in determining an opinion within assurance reports through use of a consistent understanding and application of risk.	<p><b>Response</b> Recommend agreed.</p> <p>To be reviewed and implemented appropriately.</p> <p><b>Action Plan</b> The Internal Audit Management Team will review the recommendations and consider whether enhancement to the grading of issues are beneficial for KCC and individual external clients, with the underlying ethos of the efficiency of processes for a shared service being a key consideration.</p> <p><b>Due Date</b> December 2021</p>	<p><b>Complete</b></p> <p>The Head of Internal Audit, in conjunction with the Internal Audit Management Team have discussed the options to amend the grading of audit issues in-line with the Council's Risk Management framework and have agreed to maintain the existing gradings.</p>

D1	Engagement Boundaries <b>(Consider)</b>	<p>Whilst we recognise that HoldCo is a wholly owned subsidiary, audit reviews should be focused on the specific client's management objectives. In the case of a commercial entity these may not be the same as that of KCC and therefore it is important that a clear understanding of the system boundaries is established. In other organisations, this is often achieved by allocating the contractor audit to a different team than that which services the client.</p>	<p><b>Response</b> Recommendation Agreed.</p> <p>Although the theoretical point is understood, it is considered that it is appropriately addressed, but accept that the separation of duties could be better documented. It is inevitable that the occasional review will require audit coverage of processes at both client and contractor side to occur in the best interest of reviewing overall control arrangements. Thus, a further example is when we reviewed a significant overpayment to a supplier, which necessitated looking at processes and arrangements within the Council and within one of the companies. If this had not been approached on such a holistic basis, then it would not have added value to our stakeholders nor identified the key and critical weaknesses that contributed to the overpayment. Similarly, the BACS review required coverage of both client and contractor arrangements. The service, in auditing the LatCo's and the Council, have been very clear in who audits which service and what is referred to in the recommendation is considered to be consistently undertaking as business as usual. In terms of allocating the contractor audit to a different team than which services the client, this has been occurring on an ongoing / business as usual basis for several years.</p> <p><b>Action Plan</b> Current arrangements could be enhanced by including within our checklist to document that the same auditor is not auditing the contractor and client to formalise our longstanding approach and for this to be formalised within the planning and audit allocation process.</p> <p><b>Due date</b> October 2021</p>	<p><b>Complete</b></p> <p>Discussions held at Team Meeting in October 2021 to consider whether enough is being undertaken to manage the potential engagement boundary risk and to remind Audit colleagues to keep potential conflicts in mind for all audits and the importance of raising issues with the relevant manager as soon as practically possible.</p> <p>The Audit Planning checklist has been updated to reflect potential / actual conflicts of interest encountered during audits, which had not been previously anticipated.</p>
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D2	IA Opinions (Review)	Internal Audit should consider whether there is merit to moving towards three levels of opinion – Substantial, Adequate and Limited. Consider rewording basis of overall opinions to provide increasing clarity regarding how internal auditors should assess the assurance level provided based on the significance of the risks identified. Where a risk/recommendation of a 'Critical' nature is identified this would indicate that a 'Limited Assurance' opinion should be used	<p><b>Response</b> Recommendation Agreed</p> <p>This will be considered while acknowledging that stakeholder and client expectations are also relevant to the review. As a shared service, a key factor should also be that having one basis for reporting opinions is paramount to consistency and efficiency of the service.</p> <p><b>Action Plan:</b> The Internal Audit Management Team will review the recommendation and consider whether moving to three levels of opinion and updating the issue grading definitions are beneficial for KCC and external clients.</p> <p>Dependent upon this review, any proposed changes would be discussed with senior management from KCC and external clients and proposed to respective Audit Committees.</p> <p><b>Due date</b> October 2021</p>	<p><b>Complete</b></p> <p>The Head of Internal Audit and Audit Management colleagues have considered the current opinion gradings / definitions in comparison with other Internal Audit services / peers, and we have decided to keep the current gradings / definitions to ensure consistency across all clients.</p>
D3	Quality Assurance and Improvement Programme (Consider)	The Head of Internal Audit maintains a summary of those areas of its service require further development, it would be good practice to include this as an Appendix in the Annual Report. In Annual Reports produced for clients, other than KCC, it would be appropriate to simply include a summary of key areas of development that the service will be focusing on in the coming year.	<p><b>Response</b> Recommendation Agreed.</p> <p>This will enhance the Annual Internal Audit Report and Opinion.</p> <p><b>Action Plan</b> More detailed reporting of the QAIP will be incorporated into the 2020-21 Annual Report and then on an ongoing basis.</p> <p><b>Due Date</b> August 2021</p>	<p><b>Complete</b></p> <p>More detailed information on the IACF Quality and Assurance Improvement Programme was included within the <a href="#">Internal Audit Annual Report 2020-21</a>. This will continue in future Annual Reports.</p>



D4	Head of Internal Audit Annual Report <b>(Review)</b>	The Head of Internal Audit should include a summary of the significant risks facing each client along with significant other sources of assurance that have been recognised when reaching the annual opinion in the Annual Report.	<p><b>Response</b> Recommendation Agreed.</p> <p>This will enhance the Annual Internal Audit Report and Opinion.</p> <p><b>Action Plan</b> For the 2020-21 Annual Opinion, an assessment of other sources of assurance will be undertaken, determining whether reliance can be placed to include within the overall assessment for the Head of Internal Audit Opinion. In line with guidance from the EQA Assessor, it is intended to concentrate on those corporate risks with a residual risk rating of 25.</p> <p>Moving forward, the Internal Audit service will continue to work closely with the Risk Management service in developing assurance mapping across the Council.</p> <p><b>Due Date:</b> August 2021</p>	<p><b>Complete</b></p> <p>This was incorporated into the 2020-21 Annual Opinion. However, this will continue to be refined to determine how assurances from other sources can be utilised and mapped against corporate risks. An integrated assurance methodology will also be developed.</p>
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D5.	Communication (Review)	<p>This feedback, which is summarised on page 25, may relate to the changes which have been seen in the membership of the senior internal audit management team in recent years. In responding to the recommendation in Resources – item 2 Internal Audit Management – the Head of Internal Audit should consider how the revised arrangements best provide for client engagement at senior levels in order to respond to the issues being raised but particularly in relation to the question ‘Good practice and ideas from other organisations are shared through audits, day to day contact, meetings or other engagement methods’, and other noted comments. The matter of ‘Adding Value’ has been separately addressed within the section on suggested enhancements which follows as Part Two of the report.</p>	<p><b>Response</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p>All stakeholder and client feedback are reviewed and addressed as appropriate.</p> <p>Feedback arrangements are strong, both based on surveys following each individual audit engagement and also in the annual Stakeholder survey and this is considered to comply with and potentially exceed Standards. The surveys for the EQA have identified 93% positives, which, while not grounds for complacency, is considered more than satisfactory.</p> <p>Various arrangements are already in place in sharing good practice from other local authorities via established networks, however the value of this can be enhanced and also communicated more extensively.</p> <p><b>Action Plan</b> All factors in the issue and recommendation will be reviewed by the Head of Internal Audit and incorporated to enhance the quality of the service.</p> <p><b>Due Date</b> September 2021</p>	<p><b>In Progress</b></p> <p>Stakeholder mapping exercise is currently underway. The outcomes of this exercise will be formulated into a revised Customer Relationship Strategy.</p>
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1	Exit meeting template <b>(Consider)</b>	It may be beneficial to introduce a standard template on which to record findings / recommendations along with draft management responses, as this will both formalise the approach as well as support timely feedback and verify any misunderstandings or factual inaccuracies. This may represent a more efficient and effective use of time by all parties rather than wait for production of a draft report.	<p><b>Response</b> Recommendation Agreed</p> <p><b>Action Plan</b> A template will be prepared. It will be communicated to the team, incorporated into the Audit Manual and its' usage monitored during quality assurance reviews as business as usual.</p> <p><b>Due Date</b> September 2021</p>	<p><b>Complete</b></p> <p>An Exit Meeting guidance note has been prepared and circulated to Audit colleagues for testing. The guidance note sets out what should be covered during exit meetings and what information should be recorded in Pentana on the Quality Assurance &amp; Reporting checklist.</p>
2	Client surveys <b>(Consider)</b>	The level of response is similar to that seen in other organisations and therefore Internal Audit may find it useful to utilise an application such as Microsoft Forms or Survey Monkey for collecting feedback, as this can prove to be an efficient means which helps achieve an early response.	<p><b>Response</b> Recommendation Agreed.</p> <p>This can be considered. Another method has previously been reviewed, however there were data /GDPR issues associated with its usage.</p> <p><b>Action Plan</b> The use of MS Forms Survey will be progressed. The template will be prepared and utilised as part of the ongoing feedback arrangements relating to each audit at the earliest opportunity.</p> <p><b>Due Date</b> July 2021</p>	<p><b>Complete</b></p> <p>Pilot testing currently underway of new MS Forms survey. This will be introduced more widely for the 2022/23 Audit Plan.</p>

3	Contractual Arrangements <b>(Consider)</b>	To develop an appropriate Service Level Agreement for the provision of a future internal audit services by Kent County Council, which could include expectations of each client including appropriate performance measures. Matters of a professional nature regarding routine compliance with the PSIAS should become matters covered within an Internal Audit Charter, which reflects the service provided and appropriate to all clients. Such requirements would then be managed using standard contract and performance monitoring arrangements.	<p><b>Response</b> Recommendation Agreed.</p> <p>Service Level Agreements are currently in place where Internal Audit provide services in the delivery of Annual Audit Plans and most of the elements referred to in the findings and recommendation are already incorporated.</p> <p><b>Action Plan</b> Existing SLA's will be reviewed to review the factors identified within the finding and recommendation and, where appropriate, amendments will be proposed with relevant external clients.</p> <p><b>Due Date</b> October 2021</p>	<p><b>Complete</b></p> <p>This was incorporated into the development of the new service level agreement (SLA) with Tonbridge &amp; Malling Borough Council and will be covered in the development of any future SLA's with other clients.</p>
4.	Standard Engagement Report <b>(Consider)</b>	The current engagement report template includes a statement reflecting compliance with the Standards for the Professional Practice of Internal Auditing. To consider whether this should more appropriately reflect the PSIAS for public sector clients. It may also be appropriate to include reference to compliance with the Code of Ethics.	<p><b>Response</b> Recommendation Agreed.</p> <p>This will enhance existing reporting arrangements.</p> <p><b>Action Plan</b> Relevant inserts will be incorporated into report templates.</p> <p><b>Due Date</b> September 2021</p>	<p><b>Complete</b></p> <p>Report templates have been updated as agreed.</p>

5.	Release of Engagement Reports <b>(Consider)</b>	Consider in conjunction with recommendation Resources (1) releasing the report in the name of the responsible CAE and then referencing any internal staff that have been involved.	<p><b>Response</b> Recommendation Agreed</p> <p><b>Action Plan</b> This will be considered in review with Resources Recommendation 2 and, if appropriate, amendments to the front page of the report templates will be undertaken to include naming the CAE.</p> <p><b>Due Date</b> July 2021</p>	<p><b>Complete</b></p> <p>Report templates have been updated as agreed.</p>
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6.	Adding Value <b>(Consider)</b>	<p>Whilst it is appreciated that where outsourced service providers have limited access to a range of clients within each of the sectors being serviced, in order to advise on best practice, the internal audit service should consider how it can best react to the feedback provided and consider: a) Inclusion of relevant wording of advice to highlight such matters' b) Enhancing the skills and training matrices to focus on specific sector or technical areas. c) Forming a peer group of internal audit providers with whom views regarding alternative approaches can be shared. d) Researching Audit Committee papers from other organisations to identify common themes and recommended practice elsewhere. e) Increasing the range of specialist and professional groups with which internal audit staff engage, and f) Developing a 'best practice' database of relevant management objectives, significant risks, controls and relevant legislation that can be used to support planning.</p>	<p><b>Response</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p>There are many ways in which any Internal Audit service can provide added value and there are many differing professional interpretations. There are many examples of where the service has provided added value.</p> <p>The EQA survey was 100% positive to the added value question and other comments highlighted perceived added value.</p> <p>The suggestions (a-f) are mainly undertaken already- we are in several peer groups, audit committee papers are referred to from other organisations. Thus, for example, with peer groups, we are currently in 3 separate peer groups, Kent Audit Group (KAG), Local Authority Chief Auditor Network (LACAN) and the Home Counties Chief Internal Auditors Group (HCCIAG) with which we have excellent relationships, contribute actively and share and learn extensively from each other.</p> <p>It is uncertain whether the database idea would be an efficient utilisation of time in terms of the time to set up and maintain.</p> <p><b>Action Plan</b> The service will continue to seek and aspire to improving its value to each of the organisations it delivers for. The factors a-f will be reviewed.</p> <p><b>Due Date</b> December 2021</p>	<p><b>Complete</b></p> <p>The Internal Audit Progress Reports / Annual Report do provide details of any consultancy / advice work completed in the period.</p> <p>An annual skills gap analysis is completed, and relevant training arranged as needed.</p> <p>Audit colleagues proactively engage / attend a number of networking forums with other Internal Audit Services / peers.</p> <p>Audit Management regularly review / observe other Audit Committee meetings / reports to share best practice and for further development.</p> <p>The Pentana library facility and audit drive is used to store best practice and training materials for the team to access.</p> <p>Further work is planned / ongoing to ensure other sources of assurance is considered / drawn on during audit planning and the Annual Report + HoIA Opinion.</p>
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7.	Internal Audit Manual <b>(Consider)</b>	A previous recommendation noted that the team intended to commission a Risk Based Internal Audit training session. It may be useful to support this with inclusion of a 'softer' explanation within the introduction to each section of the Internal Audit Manual to provide guidance regarding: a) The relevance of the section to maintaining a constructive relationship with the client, bearing in mind the nature of their business, b) The aims and anticipated outcomes arising from each element of audit work, particularly in relation to any practices that are amended as a result of this review such as focus on Management Objectives or the conduct of an Exit Meeting using the proposed template, and c) How these relate to the conduct of the engagement particularly in relation to significant risk and its alignment with each client's approach to risk management.	<p><b>Response</b> Recommendation Agreed - to be considered.</p> <p><b>Action Plan</b> The recommendation will be considered in the next review of the Audit Manual.</p> <p><b>Due Date</b> March 2022</p>	<p><b>Complete</b></p> <p>The elements raised within the recommendation have been considered within a recent review of the Audit Manual.</p>
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8.	Use of Sub Contractor Support <b>(Consider)</b>	When contracting with external arrangements, it would be good practice to review or confirm the status of the most recent EQA report, where there is available with regard to professional firms and other outsourced providers.	<p><b>Response</b> Recommendation Agreed to be reviewed and implemented appropriately.</p> <p>The issue and recommendation are understood, however not necessarily considered relevant to practice by the service. Thus, for example, in engaging the services of another provider in 20-21, it is considered that this risk was adequately mitigated with a Letter of Engagement with the provider containing a formal commitment to the Code of Ethics and the Standards. Furthermore, the quality and high reputation of the organisation engaged is widely known within the Local Government Internal Audit community.</p> <p><b>Action Plan</b> In the eventuality of engaging another provider, the good practice referred to will be adopted.</p> <p><b>Due Date</b> May 2021</p>	<p><b>Complete</b></p> <p>The EQA report / outcomes are now requested from all potential contractors during the preliminary commissioning stage and are considered / assessed by the IA Management Team prior to formal instruction.</p>
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## Appendix E - Definitions

### AUDIT OPINION

#### High

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

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

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

#### Substantial

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

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

#### Adequate

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

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

#### Limited

Internal Control, Governance and the management of risk are inadequate and result in an unacceptable level of residual risk. Effective controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied.

Certain weaknesses require immediate management attention as there is a high risk that objectives are not achieved.

#### No Assurance

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

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

## Appendix E - Definitions

### PROSPECTS FOR IMPROVEMENT

**Very Good** There are strong building blocks in place for future improvement with clear leadership, direction of travel and capacity. External factors, where relevant, support achievement of objectives.

**Good** There are satisfactory building blocks in place for future improvement with reasonable leadership, direction of travel and capacity in place. External factors, where relevant, do not impede achievement of objectives.

**Adequate** Building blocks for future improvement could be enhanced, with areas for improvement identified in leadership, direction of travel and/or capacity. External factors, where relevant, may not support achievement of objectives

**Uncertain** Building blocks for future improvement are unclear, with concerns identified during the audit around leadership, direction of travel and/or capacity. External factors, where relevant, impede achievement of objectives.

### ISSUE RISK RATINGS

**High** There is a gap in the control framework or a failure of existing internal controls that results in a significant risk that service or system objectives will not be achieved.

**Medium** There are weaknesses in internal control arrangements which lead to a moderate risk of non-achievement of service or system objectives.

**Low** There is scope to improve the quality and/or efficiency of the control framework, although the risk to overall service or system objectives is low.

**By:** Jonathan Idle – Head of Internal Audit  
**To:** Governance and Audit Committee – 27 April 2022  
**Subject:** **INTERNAL AUDIT PLAN 2022/23**  
**Classification:** Unrestricted

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**Summary:** This report details the proposed Internal Audit Plan for 2022/23; the Internal Audit Charter, which underpins the plans and practice of the Internal Audit team and the key performance indicators to be tracked and monitored during 2022/23.

**Recommendation: FOR DECISION**

### Introduction

- The Public Sector Internal Audit Standards (PSIAS) require the Internal Audit service to produce a risk-based audit plan. This paper sets out the proposed 2022/23 Internal Audit Plan (Plan), including a summary of the available resources.
- The 2022/23 Plan will be a rolling 6-month plan, to allow more flexibility to incorporate changing and emerging risks into the Plan, replacing the previous fixed annualised audit planning approach.
- This paper sets out the following:
  - The priority audits for June – November 2022. These Audits have been prioritised using our risk-based assessment and evaluation methodology, following the criteria detailed below.
  - Some further Priority 1 audits and Priority 2 audits to be considered for the latter part of 2022/23. The Priority 1 audits have been assessed as ‘must do’s’ and Priority 2 audits have been assessed as ‘could do’s’. The significance and priority of all potential audits identified within the audit planning process, will be continually risk assessed throughout the year.
  - The Internal Audit Charter. The Charter is a mandatory requirement of the Public Sector Internal Audit Standards, which should be reviewed and updated periodically. The Charter sets out the purpose, authority and responsibility of Internal Audit.
  - The key performance indicators to track and monitor audit plan delivery and service performance during 2022/23.

## 2022-23 Internal Audit Plan

- The Public Sector Internal Audit Standards (PSIAS) stipulates the need for the development of an Audit Plan.
- The Kent County Council Internal Audit service has traditionally produced an Annual Plan, covering a 12-month period. This practice is in-line with the requirement to produce an annual opinion at the end of the year on overall systems of risk management, governance, and internal control.
- To enable the Internal Audit service to be more flexible and adaptive to changing priorities and emerging risks, the Plan for 2022/23 will be a 6-month rolling Plan. This dynamic approach will ensure optimum value to the Council and stakeholders and more effective deployment of audit resources.
- The Plan will be reviewed every 3 months by completing an assessment of all potential audits identified against the following criteria:

**Significance** How important is the activity to the Council in achieving its objectives, key plans and managing its risks?

**Sensitivity** How much interest would there be if things went wrong and what would be the reputational impact?

**Time** When is the best time for the audit to be completed?

- The quarterly review will also consider an evaluation of relevant business intelligence to identify new priorities / emerging risks and potential audit areas.
- Another key consideration when reviewing and updating the Plan throughout the year, will be to ensure there continues to be sufficient coverage of the 8 themes of Corporate Health, which are utilised to ensure there is sufficient coverage for the Head of Internal Audit's Annual Opinion in July 2023.
- Any amendments to the Plan will be reported to the Governance and Audit Committee.
- The Plan for June – November 2022 is attached at **Appendix A**. This includes 26 audits, which are spread across the Directorates as follows:

Directorate	Number of Audits
Cross-Directorate	7
Adult Social Care & Health	2
Children, Young People and	2
Growth, Environment & Transport	2
Strategic & Corporate Services	10
ICT	3
<b>Total Audits</b>	<b>26</b>

- The Priority 1 and Priority 2 audits detailed within **Appendix B** and **Appendix C** will be considered for coverage between December – May 2023.
- The Plan has been developed through a risk-based planning process, including the following elements:
  - A review of the corporate and division risk registers and discussion with the Corporate Risk Manager
  - Discussions with Corporate Directors, Directors and Heads of Service
  - Attendance at Directorate Management Team meetings
  - Horizon scanning to identify emerging risks and issues
  - A review of audits deferred from the 2021/22 Plan
  - Undertaking an assessment to determine the required coverage needed for the Head of Internal Audit's Annual Opinion for 2022/23
  - A review of the Council's Annual Governance Statement
  - A review of previous cyclical / core audit work
  - Identification of audit reviews to be followed up
  - Consideration of other sources of assurance.
- The Plan includes some audits with specific scope areas where this has already been identified and some audits where scope is still to be determined.
- The Plan does not detail the number of days to be assigned to the individual audits, but it does illustrate the total days / resources available.
- **Appendix D** sets out how the audits listed on the 6-month Plan for June to November 2022 map to the Reasonable Assurance – 8 Themes of Corporate Health.
- **Appendix E** sets out how the audits listed on the Plan mapped to KCC's Corporate Risks.
- In addition to the projects listed on the Plan, we also have **220** days set aside for grant certification work.
- The outcomes from the 2022/23 Plan will provide the following:
  - Overall opinion and assurance to support the 2022/23 Annual Governance Statement.
  - Assurance against the mitigation of key corporate risks.
  - Assurance over the critical systems of the Council.
  - On-going advice and information to management on risks and controls.
  - Opportunities to provide management with value for money support and advice.

- Excluded from Appendix A are detailed plans for:
  - Internal Audit coverage of the Kent HoldCo Ltd and its subsidiary companies LATCos (Commercial Services, Invicta Law, Cantium and The Education People).
  - Income generating and shared service work with Tonbridge and Malling Borough Council, Kent and Medway Fire and Rescue Service, Parish Councils, Academies and audits of selected grants.

## Resources

- Based on the current Team resources, the total days available for 2022/23 is **2,697** days.
- The number of audit days available for the KCC 2022/23 Audit Plan is estimated to be **900**. This will be split equally between June – November 2022 and December – May 2023.
- A summary of the overall Audit Plan is illustrated below:

<b>2022/23 KCC Audit Plan</b>		<b>Days</b>
KCC (June – November 2022)		450
KCC (December – May 2023)		450
<b>Sub-Total</b>		<b>900</b>
<b>Other Factors</b>		<b>Days</b>
2021/22 Audit Plan carry forward		100
Management		250
Client liaison / advice		100
Contingency		170
KCC Follow Ups		50
Pentana (Audit Software) Development		50
<b>Sub-Total</b>		<b>720</b>
<b>External Clients</b>		
Academies		30
Grant Certifications		220
Kent HoldCo		300
Kent Fire & Rescue Services		95
Other		10
Parish Councils		40
Tonbridge & Malling Borough Council		382
<b>Sub-Total</b>		<b>1,077</b>
<b>Total</b>		<b>2,697</b>

26. Based on the current staffing levels and assumptions, there is sufficient resource to deliver the 2022/23 Audit Plan. However, some further recruitment activity is planned during 2022/23 to provide greater resilience within the team.

## Internal Audit Charter

- It is a requirement of the Public Sector Internal Audit Standards (the Standards) that the purpose, authority and responsibility of Internal Audit is formally defined in an internal audit charter and that this be periodically reviewed and presented for approval to senior management and the Board (defined as the Audit Committee in the Local Government Application Note by CIPFA). The Charter, which is attached at **Appendix F** has been reviewed to ensure it remains fit for purpose to support delivery of the 2022/23 Plan and is compliant with the Standards. No amendments have been made to the Charter previously submitted in July 2021.

## Key Performance Indicators

- **Appendix G** sets out the Key Performance Indicators (KPI's) to be tracked and monitored during 2022/23. There are two sets of KPI's detailed; those reportable to key stakeholders and those to be internally monitored for the purpose of tracking team performance and to drive service improvements.

## Conclusions

- The Plan provides sufficient coverage of the Council's current and emerging risks and priorities, with sufficient flexibility to add further reviews onto the plan as needed. There will be sufficient resources to deliver the proposed Plan.

## Recommendations

- Members are asked to:
  - Agree the proposed Internal Audit Plan for June to November 2022
  - Note Priority 1 and Priority 2 audits to be considered for the remainder of 2022/23
  - Approve the Internal Audit Charter
  - Note the Key Performance Indicators for 2022/23

## Appendices:

Appendix A - Internal Audit Plan and Resourcing

Appendix B - Priority 1 Audits

Appendix C - Priority 2 Audits

Appendix D - Audit Plan mapped against 8 Themes of Corporate Health

Appendix E - Audit Plan mapped against Corporate Risk Register

Appendix F - Internal Audit Charter

Appendix G - 2022/23 Key Performance Indicators

**Jonathan Idle**  
**Head of Internal Audit**  
**03000 417840**

# Kent County Council

## Internal Audit Plan

June 2022 – May 2023



# 1. Cross-Directorate

Audit Title	Nature of Work	Scope
Assurance Mapping (1)	Consultancy	To complete an assurance mapping exercise for a selected risk from the Corporate Risk Register
Data Mapping	Assurance	To provide assurance regarding robustness of data mapping across the Council
Inflation	Consultancy	To establish how the Council is managing / mitigating the risks linked to increasing inflation
Informal Governance	Assurance	Review of Informal Governance arrangements
Operating Standards	Consultancy	To advise whether the compliance statements detailed in the Annual Governance Statement assurance statements, in relation to Operation Standards are accurate – to include procurement and contract signing
SEND Transport	Lessons Learned Review / Assurance	Ongoing lessons learned review carried forward from 2021/22
Talent Management	Assurance	To provide assurance that the Council has adequate arrangements in place for talent management To review the adequacy and effectiveness of controls over staff retention risks

<b>2. Risk Based Audits</b>		
<b>2.1 Adult Social Care and Health (ASCH)</b>		
<b>Audit Title</b>	<b>Assurance / Consultancy</b>	<b>Scope</b>
Individual Contracts with Care Providers	Assurance	To review the adequacy and effectiveness of controls over individual contracts with care providers
Making a Difference Every Day (MADE)	Embedded Assurance	Ongoing embedded assurance of MADE programme, to include work to prepare for Social Care Reform
<b>2.2 Children, Young Persons and Education (CYPE)</b>		
<b>Audit Title</b>	<b>Assurance / Consultancy</b>	<b>Scope</b>
Change for Kent Children	Consultancy - Embedded Assurance	Ongoing embedded assurance review on the Change for Kent Children programme
Recruitment and Retention of Social Workers (CYPE)	Assurance	To determine whether the Council is getting best value from the new Social Worker resourcing contract  To assess the adequacy and effectiveness of controls to recruit and retain experienced social workers and to manage positive health and well being

## 2.3 Growth, Environment and Transport (GET)

Audit Title	Assurance / Consultancy	Scope
Climate Change	Assurance	<p>There are several potential areas for this review, which include:</p> <p>To provide assurance over the implementation of the Kent and Medway Energy and Low Emissions Strategy by KCC</p> <p>Or</p> <p>To review the Council's preparedness for Climate Change in consideration of funding, development of strategies / policies, decision making and commissioning of services</p> <p>The precise scope will be determined prior to the review</p>
Highways Term Contract	Consultancy - Embedded Assurance	Ongoing embedded assurance in relation to the re-tendering of the Highways Term contract

## 2.4 Strategic and Corporate Services

Audit Title	Assurance / Consultancy	Scope
Annual Governance Statement	Assurance	To provide assurance that the information received at all levels for the Annual Governance Statement gives an accurate assessment of the organisation and to verify evidence behind the assurance statements
Budget Savings	Assurance	To review the effectiveness of the monitoring of the delivery of savings set out for 2022/23
Decision Making	Assurance	To review compliance across the Council with Decision Making as set out in the KCC Constitution, for example Standing Delegations, Delegated Decisions, Executive Decisions, Non-Executive Decisions and Key Decisions
Estate Management / Maintenance	Assurance	Maintenance of KCC estate / buildings To examine the funding arrangements and management of processes
Health & Safety	Assurance	To provide assurance regarding the effectiveness of KCC Health and Safety Function processes
Imprest Accounts	Assurance	To review the use and control of Imprest Accounts
Information Governance	Assurance	There are several potential areas for this review, which include:  To determine whether Information Asset Owners currently in place understand what and where data they are responsible for  Or  To establish whether physical information stored in Council offices is held securely

## 2.4 Strategic and Corporate Services

Audit Title	Assurance / Consultancy	Scope
Modern Slavery	Assurance	<p>To determine whether the Council's procurement and commissioning activities include sufficient probity checks of tenderers / suppliers to ensure the contracted work force is recruited</p> <p>To consider whether the Council provides sufficient training / awareness of modern slavery to key teams / workforce</p>
Procurement	Assurance	Compliance with the Council's Contract Standing Orders
Purchase Cards	Assurance	To review the adequacy and effectiveness of controls over the administration, allocation, authorisation monitoring and management of purchase cards – including the removal / suspension of cards

### 3. ICT Audits

Audit Title	Assurance / Consultancy	Scope
Cyber Security Patch Management	Assurance	To review the effectiveness of Patch Management arrangements as part of IT Security.
Data Centre Outage Lessons Learned Review	Assurance	Continuation of on-going follow up work against the consolidated action plan
Information Technology Risk Management	Assurance	ICT02-2022 Information Technology Risk Management audit deferred from 2021/22

## Priority 1 Audits

Adult Social Care & Health	Children, Young People and Education
Public Health Provider Invoicing (Follow Up) Quality Assurance Framework	Special Educational Needs and Disabilities Unregulated Care Placements
Growth, Environment & Transport	Strategic and Corporate Services
Traveller Service (Follow Up)	Commissioning Counter Fraud Data Security and Protection (DSP) Toolkit LATCO Governance Arrangements Pension Scheme Admin Records Management (Follow Up) Risk Management Schools Financial Services – Compliance Review Social Care Debt Recovery Treasury Management
Cross Directorate	ICT
Assurance Mapping (2)	Cyber Security Disaster Recovery

<b>Priority 2 Audits</b>	
<b>Adult Social Care &amp; Health</b>	<b>Children, Young People and Education</b>
Direct Payments Financial Sustainability (Budget Deficit) Health Visitor (Backlogs) Preparedness for CQC Inspection Provider Failure / Capacity Safeguarding (ASCH) Workforce Planning (ASCH)	School Placements to Independent / Specialist Schools Safeguarding (CYPE) Unaccompanied Asylum-Seeking Children (National Transfer Scheme)
<b>Growth, Environment &amp; Transport</b>	<b>Strategic and Corporate Services</b>
Coroners Enterprise Payments Local Enterprise Partnership (Funding Arrangements) Management of Border Checks (Post 1 July 2022) Management of Street Works and Lane Rental SEND Transport Tender (Post Implementation Review) Waste and Recycling Centres Waste Strategy	Bank Reconciliations Budget Monitoring and Control Client Financial Services (Financial Assessments) High Needs Funding (Budget Monitoring and Control) Data Protection Domestic Abuse Facilities Management Procurement Engagement of Consultants Payment Card Industry Data Security Standards (PCI DSS)
<b>Cross Directorate</b>	<b>ICT</b>
Family Placement Payments (via Controcc) Increasing Demand for Council Services Performance Management (KPI Reporting)	Software Licensing Supply Chain Total Replacement Programme



**Audit Plan mapped to Reasonable Assurance – 8 Themes of Corporate Health**

<p><b>Risk Management</b></p> <p>Climate Change          Cyber Security – Patch Management          Inflation          Making a Difference Every Day          Modern Slavery          SEND Transport</p>	<p><b>Corporate Governance</b></p> <p>Annual Governance Statement          Assurance Mapping          Climate Change          Decision Making          Health &amp; Safety          Informal Governance          Operating Standards          Making a Difference Every Day</p>
<p><b>Financial Control / VFM</b></p> <p>Budget Savings          Inflation          Individual Contracts with Care Providers          Imprest Accounts          Purchase Cards          Estate Management / Maintenance          Procurement          Change for Kent Children          Making a Difference Every Day          SEND Transport</p>	<p><b>Commissioning, Procurement &amp; Partnerships</b></p> <p>Highways Term Contract          Informal Governance          Individual Contracts with Care Providers          Operating Standards          Modern Slavery          Procurement          SEND Transport</p>
<p><b>Change Management and Programme / Projects</b></p>	<p><b>Asset Management</b></p>
<p>Change for Kent Children          Making a Difference Every Day          SEND Transport</p>	<p>Estate Management / Maintenance          Health &amp; Safety          Recruitment and Retention of Social Workers (CYPE)          Talent Management</p>
<p><b>Information Governance</b></p> <p>Cyber Security – Patch Management          Data Centre Outage Lessons Learned          Data Mapping          Information Governance          Information Technology Risk Management</p>	<p><b>Counter Fraud</b></p> <p>Imprest Accounts          Purchase Cards</p>

**Audit Plan Mapped Against Corporate Risk Register**

Risk	Audits
CRR0001 – Safeguarding (Children)	
CRR0002 – Safeguarding (Adults)	
CRR0003 – Securing resources to aid economic growth & enabling infrastructure	
CRR0004 – Simultaneous Emergency Response, Recovery and Resilience	
CRR0009 – Future financial and operating environment	Budget Savings Inflation
CRR0010 – Suitable provision for Unaccompanied Asylum-Seeking Children	
CRR0014 – Technology Resilience and Information Security	Cyber Security - Patch Management
CRR0015 – Managing and working with the social care market	Individual Contracts with Care Providers Making a Difference Every Day
CRR0039 – Information Governance	Cyber Security – Patch Management Data Centre Outage Lessons Learned Data Mapping Information Governance Information Technology Risk Management
CRR0042 – Post-Transition border systems	
CRR0044 – High Needs Funding	
CRR0047 – Adequacy of support for Children with Special Educational Needs & Disabilities	Change for Kent Children SEND Transport
CRR0049 – Fraud and Error	Imprest Accounts Purchase Cards
CRR0050 – Chemical, Biological, Radiological and Nuclear Incidents	
CRR0051 – Maintaining or improving workforce health, well-being and productivity	Health & Safety Talent Management
CRR0052 – Impact of Climate Change	Climate Change
CRR0053 – Impact of fulfilment of Statutory Duties due to Capital Programme affordability	Estate Management / Maintenance
CRR0054 – Supply chain and market challenges	

Audits Mapped to Directorate Risk Registers	
Annual Governance Statement	Modern Slavery
Assurance Mapping	Operating Standards
Decision Making	Procurement
Inflation	Recruitment & Retention of Social Workers (CYPE)
Highways Term Contract	

# KENT COUNTY COUNCIL

## Internal Audit Charter

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### INTRODUCTION

This Internal Audit Charter formally defines the purpose, authority and responsibility of the Internal Audit service within Kent County Council. It is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (and the Chartered Institute of Internal Auditors (IIA). The Charter will be reviewed at least annually to ensure it is up-to-date and reflects the PSIAS).

### PURPOSE

The definition of Internal Audit is a mandatory part of the PSIAS and is as follows:

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

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

### AUTHORITY

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2015. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The Council has delegated this responsibility to the Corporate Director of Finance.

### STATUS OF INTERNAL AUDIT WITHIN THE ORGANISATION

The Head of Internal Audit and Counter Fraud (Head of IA&CF) reports directly to the Corporate Director of Finance and quarterly to the Governance and Audit Committee; meeting regularly with the Chair on a one-to-one basis. The Head of A&CF will also report to senior management and Members when necessary, including statutory officers, Head of Paid Service, Monitoring Officer, and the Leader of the Council.

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

The Head of IA&CF has direct access to the Chair of the Governance and Audit Committee and has the opportunity to meet with the Governance and Audit Committee in private.

The Chair of the Governance and Audit Committee will be involved in the appointment and termination of the Head of IA&CF.

### RESPONSIBILITY

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

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

### PROFESSIONAL STANDARDS

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

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

Compliance, by all those involved in the delivery of Internal Audit services with the Code of Ethics laid down in the PSIAS enhances the environment of trust between Internal Audit and senior management. Fundamentally, the following ethical standards are observed:

- Integrity – performing work with honesty, diligence and responsibility;
- Objectivity – making a balanced assessment of relevant circumstances not unduly influenced by personal interests or by others in forming judgements;
- Confidentiality – respecting the value and ownership of information obtained and not disclosing without appropriate authority, unless there is a legal or professional obligation to do so;
- Competence and Due Professional Care – applying the knowledge, skills and experience needed in the performance of work.

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

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

### INDEPENDENCE AND OBJECTIVITY

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. This will include ensuring that where an audit is undertaken of an area where the Head of IA&CF has operational responsibility, appropriate measures are put in place to avoid compromising independence. In the case of the Counter Fraud Service this will be achieved through a tri-authority peer review; the most recent peer review was completed in May 2021.

The Head of IA&CF will have free and unrestricted access and freedom to report in his/her own name to the Corporate Director of Finance, Head of Paid Service, Monitoring Officer? and Chair of the Governance and Audit Committee.

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

Internal Audit will also report to the Governance and Audit Committee, progress on the directorates' implementation of actions agreed in relation to issues raised by Internal Audit.

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

Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Head of IA&CF will disclose details of the impairment to the Corporate Director of Finance and /or the Chair of the Governance and Audit Committee depending upon the nature of the impairment.

When requested to undertake any additional roles or responsibilities outside of Internal Auditing, the Head of IA&CF must highlight to the Governance and Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Governance and Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

### **SCOPE & NATURE OF INTERNAL AUDIT**

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors / Corporate Management Team) and the Governance and Audit Committee (referred to as 'Board' in the PSIAS) as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. This effectively means that Internal Audit has independent oversight of all of the Council's operations, resources, services and processes and includes:

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

## Appendix F

- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems;
- Promoting and raising awareness of fraud and corruption;
- Investigating allegations of fraud and corruption;
- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

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

Where the Head of IA&CF considers that the scope of audit work is being restricted, the Corporate Director of Finance and the Governance and Audit Committee will be advised.

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

The Head of IA&CF will provide an annual audit opinion as to the adequacy of the Council's governance arrangements, internal controls and risk management processes. This will be used to support the Annual Governance Statement.

### **FRAUD AND IRREGULARITY**

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

### **RIGHT OF ACCESS**

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

### **INTERNAL AUDIT RESOURCES**

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

### REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

In accordance with the Accounts and Audit Regulations, there is a requirement for an annual review of the effectiveness of the system of internal control. This is also part of the wider annual review of the effectiveness of the system of internal control. The Head of IA&CF will carry out an annual review of the Internal Audit function, in accordance with the Quality Assurance and Improvement Programme outlined below and will report the results to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of IA&CF will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee; this was last undertaken in March 2021. The Head of IA&CF will review the Charter annually and attach a revised document to the annual Plan.

### PROVISION OF ASSURANCE TO THIRD PARTIES

The Council’s Internal Audit section is sometimes requested to undertake Internal Audit and assurance activity for third parties. These include internal audit services, grant certification and financial accounts sign-off.

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

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

### QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

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

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

### VERSION CONTROL

Document Owner: Jonathan Idle, Head of Internal Audit and Counter Fraud.

Version	Reviewed	Reviewer	Approver
<b>Original</b>			
2	February 2015	Head of Internal Audit	Governance and Audit Committee
3	April 2016	Head of Internal Audit	Governance and Audit Committee
4	March 2019	Strategic Audit Manager	Governance and Audit Committee
5	July 2020	Head of Internal Audit	Governance and Audit Committee
6	July 2021	Head of Internal Audit	Governance and Audit Committee
7	April 2022	Head of Internal Audit	Governance and Audit Committee

**2022/23 Internal Audit Key Performance Indicators**

Reportable	
KCC KPI	Target
% completion of audits within the Annual Internal Audit Plan to at least draft stage, subject to agreed revision by the Governance and Audit Committee	90%
% Positive Client feedback	90%
Annual Management Perception Survey - % positive responses in respect of perceived benefits and value of Internal Audit service	80%
% of High and Medium issues reported to management agreed	90%

Management Information	
KCC KPI	Target
Draft Reports to be issued by the date specified in the Engagement Plan	90%
Elapsed time from start of audit fieldwork to issue of Draft Report within 40 working days.	80%
Elapsed time from issue of Draft Report to Final Report within 30 working days.	90%
Final Report to be issued within 5 days of agreement by auditee	90%
Client Satisfaction Questionnaires to be completed and returned within 10 working days of Final Report	-
Average cost per audit	-
Delivery of audit within budgeted days	90%
Productive time (Time associated directly with audit/ projects	80%



By: James Flannery – Counter Fraud Manager  
To: Governance and Audit Committee – 27<sup>th</sup> April 2022  
Subject: **COUNTER FRAUD UPDATE**  
Classification: Unrestricted

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**Summary:**

This report details:

- The Counter Fraud activity undertaken for period April 2021 to March 2022, including reported fraud and irregularities.
- An update on the Counter Fraud Action Plan for 2021/22 covering reactive and pro-active activity.
- The proposed Counter Fraud Action Plan for 2022/23.

**Recommendations:**

The Governance and Audit Committee are asked to;

- 1.1 Note the Counter Fraud Update report for 2021/22.
  - 1.2 To review, comment on and approve the Counter Fraud Plan for 2022/23.
- 

**Irregularity Referrals**

- 1.3 For the period 01 Jan 22 to 31 Mar 22, there were 90 suspected irregularities (trend analysis shown in below tables) reported to the Counter Fraud Team (compared to 74 in the same period for 2020/21). This brings the total number of referrals in 2021/22 to 297 (compared to 296 in 2020/21), The distribution and characteristics of the irregularities reported to date show that the highest areas of financial risk this year are from mandate fraud and misuse of social care support paid via a Direct Payment.
- 1.4 Actual losses (fraud & error) for the period 01 Jan 22 to 31 Mar 22 is £35,551, of which £35,537 is recoverable. The main contributors to actual losses in this period are five direct payment misuse cases totalling £30,457. This brings the total actual losses for 2021/22 to £268,593 of which £235,471 is recoverable.
- 1.5 Prevented total losses for 2021/22 stand at £1,161,829 of which a potential of £1,161,829 of losses occurring if the Counter Fraud Team/ Management had not intervened, the majority of this figure is due to two attempts to change a suppliers' bank account details.

## Blue Badges

1.6 Referrals for Blue Badge misuse for the period 01 Apr 21 to 31 Mar 22, total 182.

Parking Enforcement Area	Referral numbers – Apr to Mar 22	Parking Enforcement Area	Referral numbers – Apr to Mar 22
Ashford BC	47	Maidstone BC	2
Canterbury CC	11	Swale BC	1
Dartford BC	2	Sevenoaks DC	0
Dover DC	7	Thanet DC	0
Folkestone & Hythe BC	0	Tonbridge and Malling BC	6
Gravesham BC	39	Tunbridge Wells BC	5
		Total	120

1.7 Out of the total 120 cases referred by District Council Enforcement Teams, 74 received a Penalty Charge Notice and 24 warning and advisory letters have been issued. There are currently 44 cases under investigation.

1.8 A further 62 cases have been referred from other sources.

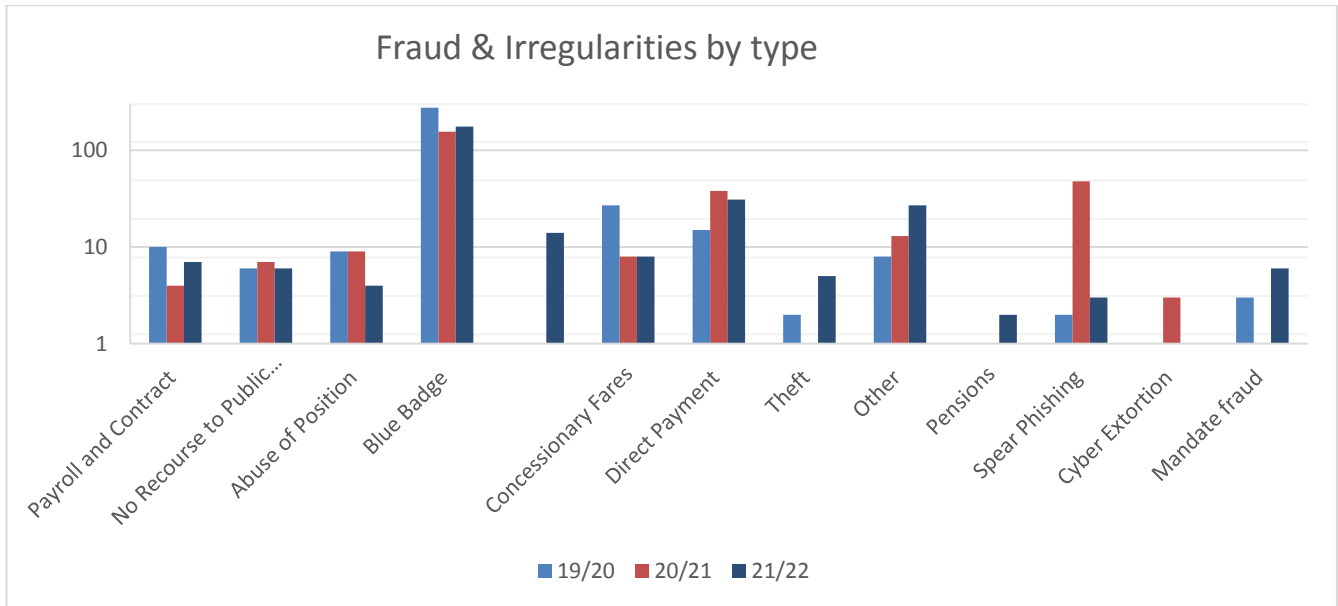
	Referral numbers – Apr 21 to Mar 22	Parking Enforcement Area	Referral numbers – Apr 21 to Mar 22
KCC Enforcement Days	2	Public	36
KCC Blue badge team	2	Kent Police	1
		National Fraud Initiative	21
		Total	62

1.9 From the total 182 cases referred there have been two simple cautions issued, a further two simple cautions awaiting issue and one case passed for legal review.

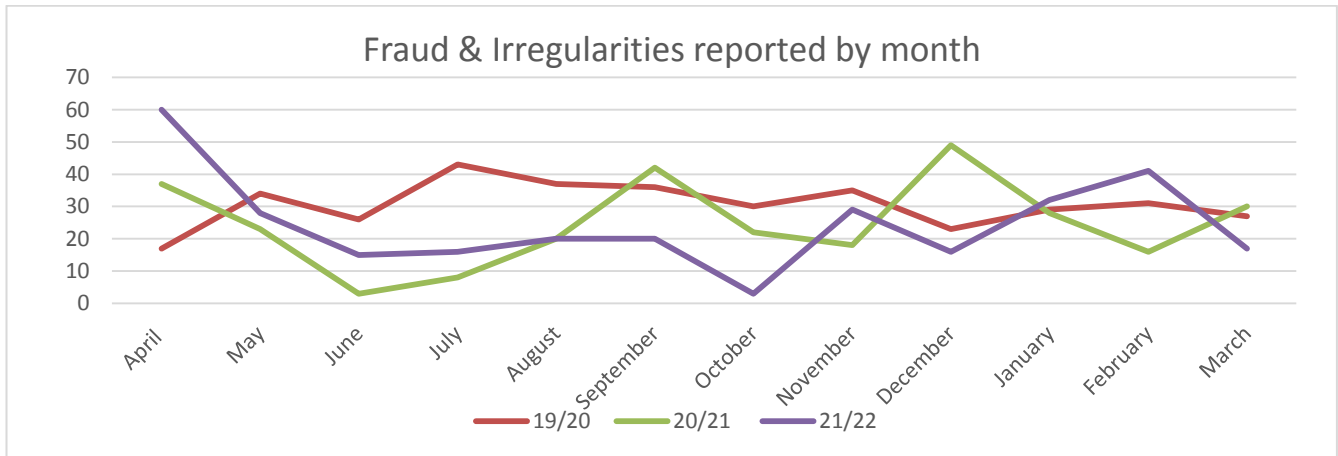
## Fraud and Irregularity Trends

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

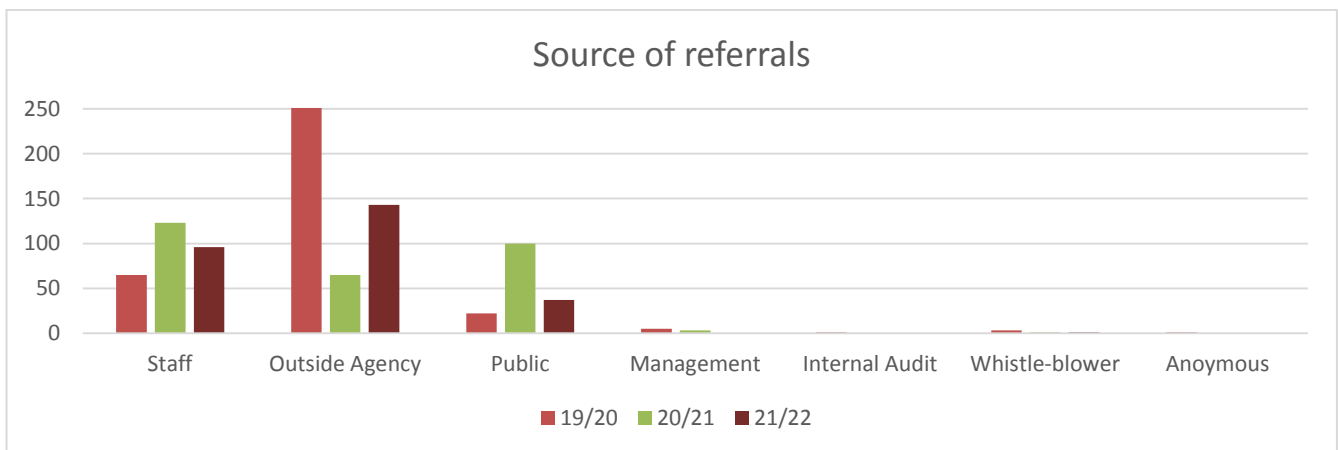
**Table CF1 - Key areas of reported fraud and irregularities**



**Table CF2 – Number of Irregularities Reported by Month**

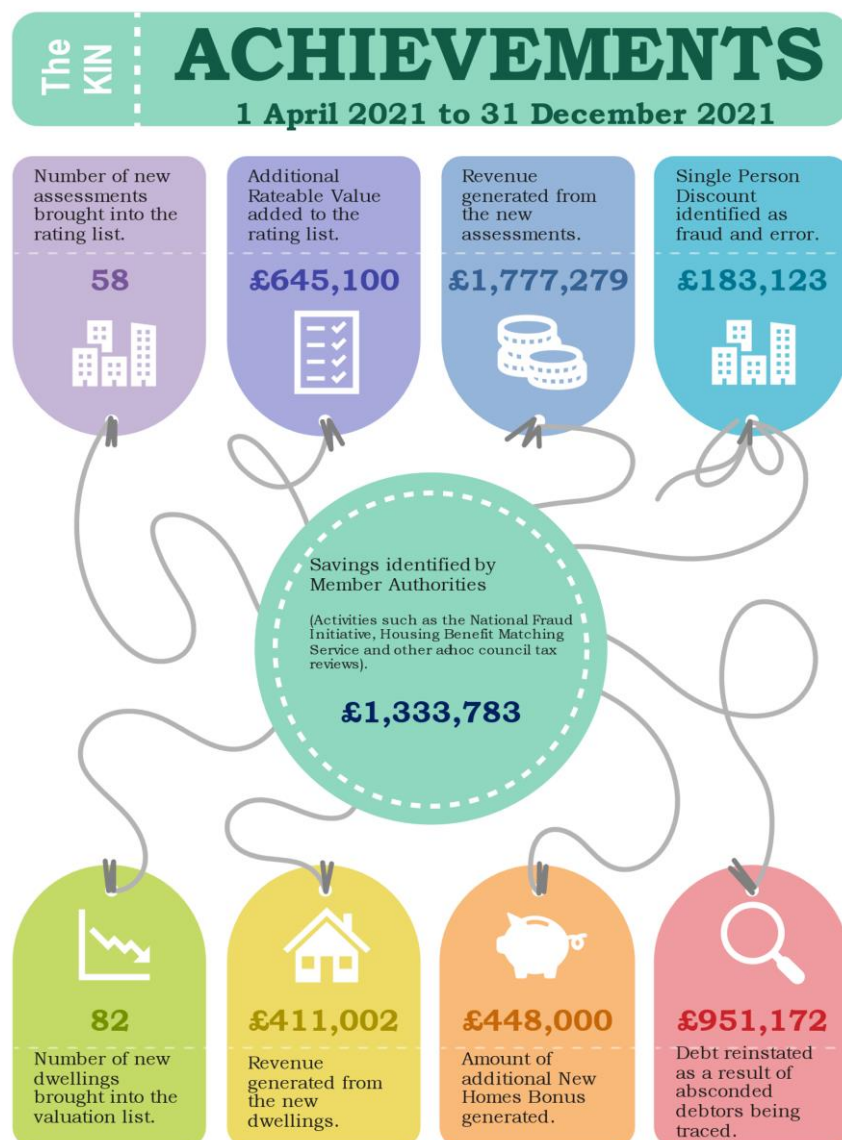


**Table CF3 – Referrals by Source**



## Kent Intelligence Network (KIN)

1.11 The KIN continues to provide valuable support to the District/Borough Councils and the outcomes for the first 9 months of the year, set out below, show the results and financial returns achieved.



1.12 58 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 liable for business rates including backdated charges.

1.13 The additional business rates revenue generated from the identification of these missing properties is £1,777,279, 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 £876,743; and
- A 'future loss prevention' provision of 3 years of £900,536. This represents the amount of additional income that would have been lost if the respective properties had not been identified

by the KIN.

- 1.14 It is also pertinent to highlight that as at 31 December 2021, there were a further 10 cases with the Valuation Agency awaiting assessment/valuation.
- 1.15 The KIN also helps to identify dwellings missing from the valuation list. So far, 82 dwellings have been identified, the majority of which are self-contained annexes missing from the list.
- 1.16 The additional council tax revenue generated from the identification of these properties is £411,002, 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 £85,653; and
  - A 'future loss prevention' provision of 3 years of £325,349. This represents the amount of additional income that would have been lost if the respective dwellings had not been identified by the KIN.
- 1.17 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 82 dwellings identified will generate £448,000 in additional NHB, of which 20% will come to KCC.
- 1.18 It is also pertinent to highlight that as at 31 December 2021, there were a further 22 cases with the Valuation Agency awaiting assessment.
- 1.19 In total, the financial benefit to KCC from the initiatives and successes detailed above amounts to £530,546.

### **Kent Fraud Panel**

- 1.20 A Kent Fraud Panel has been established which brings together Kent Police, KCC Trading Standards, KCC Community Safety, KCC Counter Fraud, Medway Trading Standards, Medway Community Safety, Medway Counter Fraud and Victim Support.
- 1.21 Initial meetings to agree terms of reference have been held, with the purpose of the panel as *'Several agencies in Kent have a statutory role in investigating allegations of fraud, prosecution of offenders, recovery of criminal assets and the safeguarding of residents and victims. The Fraud Panel has been formed to work collaboratively in all these areas to reduce the prevalence.'*
- 1.22 There will be two subgroups reporting into the panel which will concentrate on two key themes, namely, victim safeguarding and communications (prevent and protect) & enforcement, investigation, and intelligence (pursue).

### **Counter Fraud Pro-Active Work**

- 1.23 The Counter Fraud Pro-Active Work delivered for period Jan 22 to Mar 22 includes:
- Fraud and Bribery awareness within procurement to the Infrastructure Division;
  - Fraud and Bribery awareness to external clients.
  - Fraud Culture workshop to an external client.
  - Fraud briefing to Direct Payment Co-Ordinators
  - Fraud briefing to HR Advisors
  - Review of Emergency planning guidance to schools

## Counter Fraud Resources

- 1.24 The team comprises; 1FTE Counter Fraud Manager, 2.6FTE Counter Fraud Specialists, 2FTE Counter Fraud Technician, 0.8FTE Intelligence Officer and 1FTE Counter Fraud Apprentice.
- 1.25 With the retirement of the 0.6FTE Counter Fraud Specialist from March 2022, a recruitment exercise has been completed, and it is pleasing to report that one of the Counter Fraud Technicians was successful in securing the Counter Fraud Specialist position which they will commence on the 08 April 22. A recruitment exercise has been undertaken for the Counter Fraud Technician position. The successful candidate is due to start at the end of April 22.

## Counter Fraud Action Plan 2021/22

- 1.26 Updates to the 2021/22 Counter Fraud Action Plan can be found at **Appendix A**.

## Counter Fraud Action Plan 2022/23

- 1.27 The proposed Counter Fraud Action Plan for 2022/ 23 can be found at **Appendix B**. The Counter Fraud Plan is to support the Anti-Fraud and Corruption Strategy, in that the plan delivers the Govern, Acknowledge, Prevent, Pursue and Protect themes.
- 1.28 From assessment of current risk areas, work in 2022/ 23 is focused within Adult Social Care and Children, Young People & Education directorates in relation to identification and reporting of fraud and error. In addition to this, there will be authority wide engagement with commissioners/ project managers on fraud and bribery risks in procurement.

## Conclusions

- 1.29 Delivery of pro-active awareness sessions are continuing with good feedback being received on their impact and value. Reactive work is being managed within current resources, with several complex cases being progressed alongside the high-volume low complex cases.

## Recommendations

- 1.30 The Governance and Audit Committee are asked to:
- Note the Counter Fraud Update report for 2021/22.
  - To review, comment on and approve the Counter Fraud Plan for 2022/23.

**James Flannery, Counter Fraud Manager**

April 2022

## Appendix A: Counter Fraud Plan 2021/22

Ref	Risk Area	Activity	Progress
CF01-2022	Payroll, Pension, Blue Badge Concessionary fares, Trade Creditors	Progression of NFI Data Matches	In progress – Matches being cleared
CF02-2022	Corporate risk of Fraud	Policy and Strategy Review	Completed review of Anti-Fraud and Corruption Strategy, Anti Bribery Policy, Anti Money Laundering Policy, Financial Regulations and Whistleblowing policy
CF03-2022	Corporate Fraud	Kent Intelligence Network	In progress – savings reported in the main report
CF04-2022	All risk areas to support the prevention and detection of fraud and corruption	Relationship Management Strategy for Senior Stakeholders - Including Fraud, Bribery and Risk Assessments.	Fraud risk assessment of the Reconnect grant programme completed. Review of the Enterprise Business Capabilities strategic outline case. Supporting the IR35 Task and Finish group. Supporting the Finance Resilience group. Supporting the Kent Fraud Panel. No new requests for fraud risks assessments on any new initiatives, policies or strategies have been received from management.
CF05-2022	All fraud risk areas faced by schools to support the prevention and detection of fraud	Pro-active Fraud Exercise - Schools	Two sessions delivered to the Finance officers' group. Two sessions delivered to the Schools Senior Leader group
CF06-2022	Blue Badge fraud risk	Pro-active Fraud Exercise - Blue Badges	Two enforcement days delivered – with press release to raise awareness Training video under development Engagement with Parking managers occurring
CF07-2022	Social Care fraud risks	Pro-active Fraud Exercise - Social Care	Completed – issued and live on Knet.
CF08-2022	Procurement fraud risks	Pro-active Fraud Exercise - Commissioning	Received Commissioning Standards currently under review
CF09-2022	Payment/ procurement fraud risks	Data analytics development - payments	Awaiting outcome of Data Strategy.
CF10-2022	Procurement fraud risks	Data analytics development - procurement card usage	Deferred to Q4 – awaiting outcome of Schools Themed Review
CF11-2022	Counter Fraud Profession	Professional standards	Engagement with the Cabinet Office on the Counter Fraud Profession.
CF12-2022	Tax evasion	Support the development and introduction of a tax evasion strategy and risk assessment	Completed - tax evasion risks and the mitigating controls and actions recommended to Senior Accountant.
CF13-2022	Payment fraud risks	Supporting Audit on specific audits where there is a fraud risk	In progress
CF14-2022	All fraud risk areas	Reactive Investigations	In progress. 280 cleared referrals & investigations for 2021/22 (including carried forward investigations)





## Appendix B: Counter Fraud Plan 2022/23

Ref	Risk Area	Activity	Output/ Outcome
CF-KCC01-23	Payroll, Pension, Blue Badge, Concessionary fares, Trade Creditors	Progression of NFI Data Matches – Full submission due in Q3	Prevention: Removal of entitlement of concessionary fare passes, blue badges, pension from mortality data matches to prevent financial loss.  Pursue: To detect conflicts of interests in relation to related party payments, undeclared 2 <sup>nd</sup> jobs, duplicate invoices.
CF-KCC02-23	Corporate Fraud	Policy, Strategy and Risk Review	Govern, Acknowledge & Protect: To ensure policies, strategies and initiative acknowledge the risk of fraud, bribery and corruption. To ensure the risk of fraud is appropriately measured at a strategic level.
CF-KCC03-23	Corporate Fraud	Kent Intelligence Network	Prevent & Pursue: Council Tax / Business Rates To identify properties that are not included in the tax base. To identify properties receiving an incorrect discount/ exemption/ relief
CF-KCC04-23	All risk areas to support the prevention and detection of fraud and corruption	Relationship Management Strategy for Stakeholders - Including Fraud, Bribery and Risk Assessments – new Initiatives, policies and strategies. Enhanced vetting of senior officers. Kent Fraud Panel Fighting Fraud and Corruption Locally	Acknowledge & Protect: To ensure the risk of fraud is appropriately measured at an operational level – Directorate/ Divisional/ Service level fraud risk assessments where appropriate. National networking to support the measurement of fraud and horizon scanning.
CF-KCC05-23	All fraud risk areas faced by schools to support the prevention and detection of fraud	Pro-active Fraud Exercise - Schools	Acknowledge & Protect: Fraud awareness sessions for Governors, Senior leaders and finance staff
CF-KCC06-23	Blue Badge fraud risk	Pro-active Fraud Exercise - Blue Badges Enforcement Days and liaison with Parking Managers	Prevent & Pursue: Enforcement awareness to Civil Enforcement Officers and Parking Managers
CF-KCC07-23	Social Care fraud risks - ASCH & CYPE	Review of Financial Abuse Tool Kit	Prevent & Pursue: Provision of awareness of how KCC handles financial abuse against those where KCC have a strategy duty to protect
CF-KCC08-23	Procurement fraud risks	Pro-active Fraud Exercise - Commissioning	Acknowledge and Protect: Fraud, bribery and corruption awareness sessions to commissioning leads across all directorates.
CF-KCC09-23	Social Care Fraud Risks - CYPE & ASCH	To deliver fraud culture work/ awareness sessions across both CYPE and ASCH	Acknowledge and Protect: Fraud and error (including financial responsibilities) to management & front-line staff within ASCH/ CYPE.
CF-KCC10-23	Counter Fraud Profession	Professional standards	Prevent, Pursue, Protect: Increasing capabilities of Counter Fraud Team to support and challenge

CF-KCC11-23	All risk areas to support the prevention and detection of fraud and corruption	Supporting Audit on specific audits where there is a fraud risk, through planning, fieldwork and reporting stages as required.	Prevent & Protect: To ensure fraud, bribery & corruption risk and relevant controls are in place when conducting audits.
CF-KCC12-23	All fraud risk areas	Reactive Investigations	Prevent, Pursue & Protect: Completion of investigation to pursue criminality and wrongdoing, issuing of management letters on any control weaknesses identified within an investigation.
CF-KCC13-23	No Recourse to Public Funds	Review of Counter Fraud referral processes	Prevent: Updating of guidance and processes to ensure those charged with completing no recourse to public fund assessments complete relevant checks.
CF-KCC14-23	All risk areas to support the prevention and detection of fraud and corruption	Fraud Awareness – Review and update of e-Learning on Delta, fraud awareness week.	Acknowledge, Prevent & Protect: To raise awareness across Knet and through eLearning to equip staff on roles and responsibility and what to do if fraud or error detected.

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