

Grant Thornton: informing the audit risk assessment for Kent County Council and Kent Pension Fund

Fraud risk assessment

Questions	2013-14 management response
Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	The risk is minimal. Controls are in place through the budget setting, budget monitoring and year-end analytical review. We have also introduced fields within the accounting system that identify owners of cost centres plus we have a regular balance sheet management review. Any variance from budget of £0.1m or more must be explained and validated. Significant changes from previous year's spend must also be explained.
What processes does the Council have in place to identify and respond to risks of fraud?	<p>We have an annual audit plan based on risk. We have a Counter Fraud team who promote their role.</p> <p>Their work includes proactive reviews of areas that may be exposed to fraud e.g. expenses, grants, declarations of interest.</p> <p>We have whistleblowing procedures which promote reporting of suspicions. This includes the introduction of a dedicated confidential reporting line which has recently been rolled out.</p>
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	Our Whistleblowing arrangements are proving successful in terms of identifying weaknesses and / or abuse of controls, and has helped pin-point one or two specific concerns, that are being addressed.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	In general, yes. We await Corporate Directors completed AGS, and the completed audit plan. One particular weakness has been identified that is being addressed.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Yes, this is a risk applicable to any budget manager, as their performance against budget is a factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring and year end processes, as well as setting realistic budgets to start with. The creation of KCC Companies does increase risk and appropriate controls / governance are being put in place.

<p>Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?</p>	<p>For all significant areas of activity, we have the internal management controls of supervision, exception reporting, Performance Evaluation Board, etc as well as the independence of the Internal Audit team, along with the absolute independence of the Head of Audit.</p>
<p>How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud?</p> <p>What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?</p> <p>How has the Council ensured that the Governance and Audit Committee are made aware of whistleblower tips or complaints?</p>	<p>The Committee has agreed and monitors the annual internal audit plan that provides assurance in relation to the management of the significant risks faced by the Council (including fraud risk), and also provides assurance on the risk management and governance frameworks put in place by management. This is reported via quarterly reports and an annual report that provides key themes of areas where internal control may need improving.</p> <p>The Committee has received quarterly progress reports from Internal Audit which includes details of frauds and irregularities and lapses or breaches of internal control. Grant Thornton has access to the same information through the published papers of the Committee. A number of cases have been reported during 2013/14 which meet the criteria of Grant Thornton and those have been shared with them. In addition there remain cases that are still subject to investigation which have yet to be reported. The Head of Internal Audit has provided assurance that the circumstances of these cases would not be considered significant, although until the investigations are complete this cannot be guaranteed.</p> <p>The Committee receives, requests and assesses ad-hoc and routine assurance reports on:</p> <ul style="list-style-type: none"> • Complaints (including those referred to the Ombudsman) • Surveillance activities • Debt recovery and management • Treasury management • Insurance activities <p>In July 2014, the Committee will be asked to review the Annual Governance Statement of the Council. This process will include consideration of the Council's ability to identify and manage risks and a consideration of the overall internal control environment.</p> <p>The Internal Audit team have a systematic process that captures all tip-offs, records action taken, and concludes with a report to the Governance & Audit Committee. Records are checked to ensure Governance & Audit are informed in all cases.</p>

<p>How does the Council communicate and encourage ethical behaviour of its staff and contractors?</p>	<p>This is achieved by:</p> <p>The Director of Governance and Law annually reviews the Council's Code of Corporate governance and reports any revisions to Committee. In particular this report informs the Committee on how the Council achieves compliance with the principle of "promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour".</p> <p>The Committee reviews the Anti-Bribery Policy and Anti-Fraud and Corruption Strategy annually.</p> <p>The Committee receives regular reports of fraud investigations that have revealed lapses in proper business practices or unethical behaviour and ensures actions have been assigned to ensure that relevant controls are suitably tightened. These fraud investigations are instigated from referrals which may include those made via the Council's whistleblowing procedure.</p>
<p>How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?</p>	<p>The Committee has approved the internal audit plan which includes an allocation of time for the Counter Fraud Manager to provide fraud awareness training to raise the level of fraud awareness and to promote the reporting of suspicions of dubious or inappropriate ethical behaviour.</p> <p>This includes the issue of Knet bulletins and will extend to launching a fraud awareness campaign to all staff.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>No. Employees and Members are required to declare any conflicts of interests as well as any gifts and hospitalities.</p> <p>A bi annual proactive fraud review is undertaken of declaration of interests and recommendations are being implemented currently.</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council as a whole or within specific departments since 1 April 2013?</p>	<p>The Committee has been informed of a number of allegations. Any requiring investigation following preliminary enquiries, have been investigated. Some have been referred to the Police. A number of staff have been dismissed and/or arrested as a result of the findings</p>

Impact of laws and regulations

Question	2013-14 management response
What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?	Work of the Internal Audit team, the Democratic Services team, and the Legal Services team. The Procurement team work closely with Directorates and Legal to ensure compliance with EU procurement laws.
How does management gain assurance that all relevant laws and regulations have been complied with?	As above, plus 1:1 supervision between managers and their direct reports, plus the Corporate Directors AGS, as well as external reviews e.g. OFSTED.
How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	<p>The Governance and Law division is responsible for ensuring that the Council correctly applies the law and regulations governing its business. The department is led by the Director of Governance and Law, who is also the Council's Monitoring Officer and, as part of the process to support the Annual Governance Statement, has submitted a statement of assurance with regard to his statutory duties.</p> <p>The Director of Governance and Law attended all meetings of the Governance and Audit Committee, and would make the Committee aware of any significant possible instances of non-compliance with laws and regulations. In addition, the Head of Internal Audit would also report any known significant instances of non-compliance with laws and regulations. Internal Audit has reported on instances of non-compliance with relevant laws and regulations within their quarterly reports.</p>
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2013, or earlier with an on-going impact on the 2013-14 financial statements?	None that we are aware of.
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	The Chief Accountant liaises with Legal Services team to capture all potential claims. Legal estimate the potential 'loss' as best they can. This is then reported to this Committee through the Statement of Accounts in July.
Is there any actual or potential litigation or claims that would affect the financial statements?	Not at this stage, but this will be kept under review throughout the Closedown process.

Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	Not of any significance, although there have been changes to the tax treatment of Members travel expenses as a result of HMRC 'ruling'.
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Going concern considerations

Question	2013-14 management response
Does the Council have procedures in place to assess the Council's ability to continue as a going concern?	This assessment is carried out by the S151 officer on an ongoing basis but especially at the time of setting the budget and producing Final Accounts.
Is management aware of the existence of other events or conditions that may cast doubt on the Council's ability to continue as a going concern?	None in the short-medium term.
Has management reported on going concern to the Governance and Audit Committee? (If not, what arrangements are in place to report the going concern assessment to the Governance and Audit Committee?)	This is reported through the S151 officer certification within the Statement of Accounts, and through his Section 25 Assurance on County Council Budget day.
Are the financial assumptions in that report (e.g. future levels of income and expenditure) consistent with the Council's Business Plan and the financial information provided to the Council throughout the year?	N/A
Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?	Yes, including in the Medium Term Financial Plan.
Have there been any significant issues raised with the Governance and Audit Committee during the year which could cast doubts on the	No.

assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).	
Does a review of available financial information identify any adverse financial indicators including negative cash flow? If so, what action is being taken to improve financial performance?	No.
Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills?	We have a new Directorate structure in place on 1 April 2014 and a number of staff will have new responsibilities and will be working to a revised 'specification'. Any change of the size of Facing the Challenge presents risk, particularly when a number of senior staff leave the organisation. However, all of that is recognised and mitigations are in place, including training in the core skills set required of Managers.