

KENT COUNTY COUNCIL

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 23 November 2023.

PRESENT: Mrs R Binks (Chairman), Mrs S Hudson (Vice-Chairman), Mr A Brady, Mr D L Brazier, Mr N J D Chard, Mr P C Cooper, Mr M A J Hood, Mr C Passmore, Mr D Robey and Mr S Webb

ALSO PRESENT: Mr P Oakford and Mr H Rayner

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mrs C Head (Head of Finance Operations), Mr B Watts (General Counsel), Mr J Idle (Head of Internal Audit), Miss E Feakins (Chief Accountant), Mr Paul Dossett, Mr Parris Williams, Miss K Reynolds (Democratic Services Officer), Mr N Buckland (Head of Pensions and Treasury), Mr J Graham (Pension Fund Treasury and Investments Manager), Ms C Maynard (Head of Commissioning Portfolio - Outcome 2 and 3), Ms F Smith (Audit Manager), Mr S Jones (Corporate Director of Growth, Environment and Transport), Ms C McInnes (Director of Education), Ashworth (Senior Auditor), Hannah (Senior Auditor), Debbie (Deputy Audit Manager) and Jordan (Principal Auditor)

UNRESTRICTED ITEMS

162. Apologies and Substitutes

(Item 2)

Apologies for absence had been received from Dr Horne and Mr Ross. There were no substitutes present.

163. Declarations of Interest in items on the agenda for this meeting

(Item 3)

There were no declarations of interest.

164. Minutes of the meeting held on 25 October 2023

(Item 4)

1. RESOLVED that the minutes of the meeting held on 25 October 2023 be approved as a correct record subject to the following:
 - a) Reference be made to the concerns raised in response to a Committee Member's challenge of the External Auditor's findings (Item 10 – External Audit Governance Review).
 - b) The comments by the External Auditors on the sustainability report be captured under minute 159 (Item 11 – External Audit Progress Report and Sector Update).
 - c) Mr Chard's attendance be recorded.

165. Treasury Management Mid-Year Update *(Item 5)*

1. The Pension Fund and Treasury Investments Manager introduced the report which provided an overview of Treasury Management activity and developments in 2023-24 to the end of September 2023. It was said that the strategy had performed well overall and was considered to be fit for purpose for the remainder of the year. The report also detailed some of the economic developments over the past six months, including the rise in short term interest rates. The Council's borrowing requirement was expected to remain constant and be met using a combination of internal and external borrowing.
2. In response to questions and comments from Members it was said that:
 - a) The £100m 'target' associated with the liquidity risk indicator was a misnomer and should instead be understood as a 'limit'.
 - b) Regarding investments with relatively low interest rates, Members were told that some investments were retained for operational purposes to ensure that a degree of liquidity was easily accessible for risk management, including the risks associated with LOBO (Lender's Option Borrower's Option) loans.
3. RESOLVED to endorse this report and recommend that it is submitted to County Council.

166. Review of Annual Accounts *(Item 6)*

1. The Chief Accountant introduced the Statement of Accounts for 2022-23 which aimed to provide clear information on the financial performance for the year 2022-23 and the overall financial position of the Council. It was confirmed that the reporting requirements remained unchanged from the previous year. It was highlighted that the Council's Net worth has increased from a surplus of £1,259m to a surplus of £2,975m. This was mainly due to the property, plant & equipment increases and pension liability decrease. The change in pension liability decrease has had happened across the local authority sector.
2. In response to questions and comments from Members it was said that:
 - a) Regarding 'Note 19 – PFI and Similar Contracts', the PFI loan notes were originally taken out in 2014. Further information would be provided to Members outside of the meeting.
 - b) Clarification would be provided to Members regarding the Council's contributions to the Teachers' Pension Scheme and whether this included academies.
 - c) In relation to the Council's wholly-owned subsidiaries, it was confirmed that the decision to dissolve wholly-owned subsidiaries would be reported to the Governance and Audit Committee as part of the annual report. The reporting would be reviewed as part of the new governance arrangements for the shareholder board for the new financial year.
 - d) An inventory of the Council's artwork had been developed and the pieces were being valued. There were collections that had been gifted to the Council that were prohibited for resale but could be loaned to galleries for display.

- e) The Corporate Director Finance confirmed that the administration's draft budget proposal assumed that the level of general reserves would be replenished to 5% of the net revenue budget within two years. The administration had agreed to the introduction of more stringent controls should this trajectory not be met.
 - f) The Head of Finance Operations confirmed that the minimum target for the 'Insurance Reserve', listed as part of the earmarked reserves, was usually within the region of £10m.
3. RESOLVED to approve the Statement of Accounts for 2022-23; approve the Letters of Representation; and note the recommendations in the Audit Findings Report and the management responses to the recommendations.

167. External Audit Findings for KCC

(Item 7)

1. Mr Parris Williams introduced the report which included a summary of key findings and other matters arising from the statutory audit of KCC and preparation of the group and Council's financial statements for the year ended 31 March 2023. Although there were delays to the audit process, it was said that the corporate finance team had engaged well with the process and the financial statements were of high quality. Mr Williams highlighted four areas of the report including the school's cash reconciliation issue; controls around journals; a prior period adjustment on fully depreciated assets; and KCC management's optimistic assumption on the provision for doubtful debt in adult social care.
2. In response to questions and comments from Members it was said that:
 - a) The remaining economic life assumption for each asset was provided by the external valuer. This was a key assumption for a depreciation calculation. While this was not consistent with the LG Code (4.1.2.41), it did not lead to a material misstatement in the accounts. There was ongoing work with Property colleagues to determine whether the external valuer's assumption of 46 years as the life of a 'Depreciated Replacement Cost' asset as new was appropriate.
 - b) It had been recommended in the prior year that management reassess the journal control environment. This had not been completed by the target date on July 2023. Members were told that the whole journal authorisation process was being reviewed further to the issues raised by Grant Thornton.
 - c) An item to report on the methodology behind the optimistic assumption of adult social care debt would be added to the Committee's work programme for consideration at a later date.
3. RESOLVED to note the report for assurance.

168. Draft Annual Governance Statement 2022/23

(Item 8)

1. The General Counsel introduced the Draft Annual Governance Statement (AGS) for 2022/23 which was accompanied by a presentation appended to these minutes. Members were encouraged to provide comments and feedback on the draft before the Statement came back in final form for approval from the Committee in January 2024. The General Counsel thanked the 'AGS Team' who had worked towards completing the actions contained in the AGS for 2021/21

and provided a progress update on these actions. Members were told that there would be an informal discussion as to how to track the progress towards the consolidated actions contained in the AGS for 2022/23 for the Committee's assurance.

2. It was said that the intention was to return to previous reporting patterns for the AGS, and it was expected that the AGS for 2023/24 would be ready for consideration by the Committee in July 2024.
3. In response to questions and comments from Members it was said that:
 - a) Given that the AGS is considered by a variety of audience, the format and presentation of the document would be reviewed ahead of the final version being published. The Head of Internal Audit reminded Members that the review of effectiveness should be considered as the most important part of AGS.
 - b) Mr Paul Dossett confirmed that their review of the AGS primarily checked for compliance with CIPFA Solace framework, content and the direction of travel. He assured Members that KCC's AGS was transparent and honest. However, External Audit would monitor the content closely as the context had changed.
4. RESOLVED to note and comment on the draft Annual Governance Statement 2022/23.

169. Revisions to Internal Audit Plan

(Item 9)

1. The Head of Internal Audit introduced the report which detailed the proposed additions and revisions to the current 2023/24 Rolling Internal Audit Plan to reflect current financial risks facing the Council. It was said that the revisions were intended to assist the Council at this crucial time and the Plan would continue to be reviewed in light of changing risks.
2. In response to questions and comments from Members it was said that:
 - a) The External Auditor's Annual Report would include a value for money risk assessment of the Council's safety valve agreement with Central Government. Members were told that further information regarding the monitoring of these arrangements could be provided to the Committee by the Director Finance and colleagues for assurance. If Members required further assurance, an audit would be considered.
 - b) The Head of Internal Audit would provide Governance and Audit Committee Members with the agreed engagement plans for the audits identified in section 1.3 of the report.
 - c) The Contract Management audit would be deferred and re-assessed as part of preparing the 2024/25 Rolling Audit Plan. However, in light of the concerns raised by Members, the Head of Commercial and Procurement would regularly attend Governance and Audit Committee meetings.
3. RESOLVED to agree the revisions to the Rolling Internal Audit Plan.

170. Internal Audit Follow Up of SEND Transport Lessons Learned Review

(Item 10)

1. The Head of Internal Audit introduced the report which was the outcome of the recent SEND Home to School Transport (HTST) Lessons Learned Follow Up review. The importance of undertaking a Follow Up to such a major Review was emphasised by the Head of Internal Audit, who commented that it had not lost its importance because it was undertaken over a year ago. Members were reminded that the original review was commissioned by the Corporate Statutory Officers. General progress was referred to and it was highlighted that while progress had been made towards the drafting of a Memorandum of Understanding or Service Level Agreement in relation to delivery of the SEND HTST service, this had still not been finalised or put into effect. Completing this was considered to be an important area to improve governance and have clarity of responsibilities.
2. The Head of Internal Audit said that his team had received criticism for how the Review had been conducted in 2022 insofar that Management had not been provided with the opportunity to respond to the findings, this being the approach set out with the Corporate Statutory Officers. The Follow Up Review report had had been sent to 7 senior managers within the two relevant Directorates with a request for one consolidated response. There was further work required from the Directorates to provide this response.
3. In response to questions and comments from Members it was said that:
 - a) The Head of Internal Audit confirmed that the Follow Up of the review was not actively encouraged by all senior officers within the Council. It was decided by the Head of Internal Audit that a “halfway house” approach would be taken for the Follow Up. Therefore, the follow up review focused on 3 of the 11 areas from the original Review.
 - b) The Corporate Director Growth, Environment and Transport assured Members that the responses to the Follow Up Review report had been sent to Internal Audit by 17 November 2023. It was said that the delayed response was due to staffing issues and the scale of activity taking place in the operational service. The Director of Education and SEN said that the allocated timeframe for response fell in the school holidays when many CYPE staff were on leave. The team were required to report to the Department for Education every month and this additional work had put further strain on forward planning in CYPE.
 - c) The Director of Education and SEN said that there were concerns raised by officers about the original report which had not yet been addressed. It was also highlighted that there were 19 actions from the management action table contained in the ‘SEND Transport Review Report - Management Response Update’ that had not been reported to the Committee.
 - d) The Director of Education and SEN assured Members that the objections and concerns raised by herself and the Corporate Director Children, Young People and Education did not undermine the commitment to transparency and accountability or the teams’ work to address the issues identified in the Review. The Director of Education and SEN could circulate the objections to the Governance and Audit Committee for assurance purposes. The Director of Education and SEN requested that Members consider receiving an update on all 44 actions.
 - e) It was agreed that an updated report including the management response would be shared with the Committee. The Committee would then consider whether there should be subsequent Follow Up reviews to the SEND Transport lessons Learnt Review of September 2022 and, if so, the timescales for review. It was suggested that the Committee could also receive

the reporting information that is already being provided to the Department for Education for assurance purposes.

4. RESOLVED to note the outcomes from the SEND Home to School Transport Lessons Learned Follow Up review, subject to management responses being brought back for consideration to the January Governance and Audit Committee meeting.

171. Other items which the Chairman decides are urgent
(Item 11)

There were no matters arising.