



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Friday, 30th June, 2006, at 10.30 am
Medway Room, Sessions House, County
Hall, Maidstone

Ask for: **Andrew Tait**
Telephone

01622 694342

Tea/Coffee will be available 15 minutes before the start of the meeting

UNRESTRICTED ITEMS

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

1. Substitutes
2. Minutes - 1 March 2006 (Pages 1 - 10)
3. Ombudsman Complaints (Pages 11 - 26)
4. Draft Statement of Accounts (Pages 27 - 132)
5. Financial Regulations (Pages 133 - 134)
6. External Audit Fee and 2006/07 Joint Audit and Inspection Plan (Pages 135 - 162)
7. Code of Practice on Contracts and Tenders (Pages 163 - 166)
8. Internal Audit Annual Report 2005/06 (Pages 167 - 198)
9. Internal Audit Reporting (Pages 199 - 218)
10. Other items which the Chairman decides are urgent

EXEMPT ITEMS

11. Internal Audit Reporting - Irregularities (Pages 219 - 222)
12. Safe recruitment of people working with children (Pages 223 - 230)

Peter Sass
Head of Democratic Services and Local Leadership
(01622) 694002

Thursday, 22 June 2006

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

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held at County Hall, Maidstone on Wednesday, 1 March 2006.

PRESENT: Mr C G Findlay (Chairman), Mr R L H Long, TD (Vice-Chairman), Mr D L Brazier, Mrs T Dean, Mr C J Law, Mr J F London, Mrs M Newell, Mr W V Newman, Mr R J Parry, Mr D Smyth, Mr M V Snelling and Mr R Tolputt.

OFFICERS: The Strategic Director (Resources), Mr D Lewis; the County Finance Officer, Ms L McMullan; the Head of ICT, Mr D Cockburn; the Chief Internal Auditor, Dr C Webster (with Mrs J Armstrong); the Head of Financial Services, Mr N Vickers (with Mrs D Mattingley); the interim Communities Director of Policy and Resources, Judy Edwards; the Performance Manager, Mrs J Hill; and the Democratic Services Officer, Mr A Tait.

ALSO IN ATTENDANCE: Mrs J Eilbeck and Mr M Stevenson of Pricewaterhouse Coopers.

UNRESTRICTED ITEMS

1. Membership
(Item 1)

The Committee noted the appointment of Mrs T Dean in place of Mr M J Vye.

2. Minutes
(Item 3)

RESOLVED that the Minutes of the meeting held on 6 December 2005 are correctly recorded and that they be signed by the Chairman.

3. Code of Corporate Governance
(Item 4 – Report by Strategic Director (Resources))

RESOLVED that:-

- (a) the County Council be recommended to amend Appendix 10 of the Constitution as set out in the Appendix to these Minutes, taking into account amendments suggested by the Committee; and
- (b) future minor revisions to Appendix 10 be made by the Director of Law and Governance, reflecting any views put forward by the Committee.

4. KCC Annual Plan
(Item 5 – Report by Strategic Director (Resources))

RESOLVED that the Director of Business Solutions and Policy be authorised in consultation with the Chairman, Vice-Chairman, Labour and Liberal Democrat Group Spokesmen to discharge the Committee's responsibility to check the compliance of the KCC Annual Plan with statutory reporting requirements prior to its publication by 30 June 2006.

5. Risk Management – Revised Directorate Risk Registers

(Item 6 – Report by Strategic Director (Resources))

RESOLVED that the revised directorate risk registers be noted.

6. Performance Review

(Item 7 – Report by Strategic Director (Resources))

RESOLVED that:-

- (a) the formal Performance Review programme be discontinued;
- (b) the approach taken to performance review by the Policy Overview Committees be reviewed by the Committee after 12 months; and
- (c) consequent amendments to the Constitution be recommended to the County Council, to reflect this change.

7. External Auditor’s Preliminary Joint Audit and Inspection Plan and Fee

(Item 8 – Report by Strategic Director (Resources))

(1) A revised report, including amendments to the Preliminary Plan had previously been circulated to the Committee;

(2) RESOLVED that:-

- (a) the re-appointment of PricewaterhouseCoopers as the Authority’s external auditors until 31 March 2007 be noted; and
- (b) the Chief Executive or his nominated representative be authorised to approve the External Auditor’s Preliminary Joint Audit and Inspection Plan and fee in consultation with the Chairman, Vice-Chairman, Labour and Liberal Democrat Group Spokesmen.

8. Internal Audit Plan 2006/07

(Item 9 – Report by Chief Internal Auditor)

RESOLVED that approval be given to:-

- (a) the proposed 2006-07 Plan for Internal Audit set out in Appendix A of the report;
- (b) the proposed improvements to Internal Audit working practices set out in paragraph 7 of the report; and
- (c) the reporting arrangements for the outcomes of audits set out in paragraph 8 of the report.

9. Internal Audit Reporting
(Item 10 – Report by Chief Internal Auditor)

RESOLVED that the report be noted.

10. Mr David Lewis

This being the last meeting of Mr David Lewis, Strategic Director (Resources) the Committee thanked him and paid tribute to his services to Kent County Council. Mr Lewis suitably replied.

EXEMPT ITEMS

(Open Access to Minutes)

(Members resolved that under Section 100A of the Local Government Act 1972, the public be excluded from the meeting for the following business on the grounds that it involved the likely disclosure of exempt information as defined in paragraphs 1, 7 and 14 of Part 1 of Schedule 12A of the Act)

11. Internal Audit Reporting – Irregularities
(Item 12 – Report by Chief Internal Auditor)

(1) The Chief Internal Auditor provided brief details of all irregularities cases completed during the period November 2005 to January 2006.

(2) RESOLVED that the report be noted.

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APPENDIX (Minute 3 Refers)

1. Corporate Governance is defined as the leadership, direction and control of the organisation to ensure it achieves its agreed aims and objectives and in so doing serves the public's best interests with integrity. In 2004 the Council adopted a Code of Corporate Governance based on that set out in the CIPFA/SOLACE document "A Keystone for Community Governance".
2. In 2004 the Independent Commission on Good Governance in Public Services was established and supported by the Office for Public Management (OPM), the Chartered Institute of Public Finance and Accountancy (CIPFA), in partnership with the Joseph Rowntree Foundation. The role of the Commission was to develop a common code and set of principles for good governance across public services. This code was published in January 2005 and is incorporated within the Council's Code of Corporate Governance.
3. The Code presents six principles of good governance that are common to all public service organisations and are intended to help all those with an interest in public governance to assess good practice.
4. The following table identifies the key elements of each of these six principles, those that the Council has adopted and, where appropriate, the key documents/processes that ensure the overall arrangements made by the Council for assuring its corporate governance meets current best practice. The main document is the Constitution itself.
5. These arrangements are reviewed annually, the review and any consequent necessary action being reported to and agreed by the Audit Committee. Audit Committee approval to the latest version of the Council's Code of Corporate Governance was given on [insert date].

Code of Corporate Governance THE COUNCIL'S COMMITMENT	DOCUMENTS/PROCESSES IN PLACE TO SUPPORT COMPLIANCE:
<p>1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users</p> <p>1.1 Being clear about the organisation's purpose and its intended outcomes for citizens and service users</p> <p>1.2 Making sure that users receive a high quality service</p> <p>1.3 Making sure that taxpayers receive value for money (VFM)</p>	<p>There is a clear statement of the organisation's purpose, which is used as a basis for planning</p> <ul style="list-style-type: none"> • Vision for Kent • The Next Four Years document • Annual Plan • Local Area Agreements • Public Service Agreement 2 • Directorate Business Plans <p>The Council constantly reviews the decisions it takes, making sure that they further the organisations purpose and contribute to the intended outcomes for citizens and service users:</p> <ul style="list-style-type: none"> • Policy Overview Committees • Cabinet Scrutiny <p>The Council measures the quality of service for users and makes sure that it has the information it needs to review service quality effectively and regularly:</p> <ul style="list-style-type: none"> • Best Value Performance Indicators • Next Four Years Targets and Pis <p>Processes are in place to hear the views of users and non-users from all backgrounds and communities about their needs, and the views of service users from all backgrounds about the suitability and quality of services.</p> <p>The information is used when making decisions about service planning and improvement:</p> <ul style="list-style-type: none"> • Kent Resident's Panel • Consultation Strategy and Index • Comments & Complaints Procedure <p>The Council measures VFM and makes sure that the information it needs to review VFM effectively, including information about similar organisations for comparison, is available.</p>

<p>2. Good governance means performing effectively in clearly defined functions and roles</p> <p>2.1 Being clear about the functions of the Council</p> <p>2.2 Being clear about the responsibilities of non-executives and the executive Members, and making sure that those responsibilities are carried out</p> <p>2.3 Being clear about relationships between the Members of the Council and the public</p>	<p>The Council sets out clearly in the Constitution its approach to performing each of the functions of governance and has a process for holding the executive to account</p> <ul style="list-style-type: none"> • Cabinet Scrutiny • Standards Committee <p>The Council is clear on its decision accountability process and sets out a clear statement of the respective roles of its Cabinet Members and members of the Council:</p> <ul style="list-style-type: none"> • Decision Making Process • The Constitution <p>The role of the Leader of the Council and the Chief Executive are separate and laid out within the Constitution:</p> <ul style="list-style-type: none"> • The Constitution <p>The Council engages effectively with the public and service users to understand their views and used this information to inform decision making:</p> <ul style="list-style-type: none"> • Consultation Strategy
<p>3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour</p> <p>3.1 Putting organisational values into practice</p>	<p>The Council takes the lead in establishing and promoting values for the organisation and its staff. These values are over and above legal requirements (for example, anti-discrimination, equal opportunities and freedom of information legislation) and build on the Good Governance principles. They reflect public expectations about the conduct and behaviour of individuals and groups who control public services:</p> <ul style="list-style-type: none"> • Constitution – Members’ Code of Conduct • Equalities Policy – Cabinet endorsed • Freedom of Information – KCC policy to allow information to be accessible • Standards Committee

<p>3.2 Individual Members of the Council behaving in ways that uphold and exemplify effective governance</p>	<p>Members live up to approved guides to ethical conduct and demonstrate through their behaviour that they are focusing on their responsibilities to the organisation and its stakeholders:</p> <ul style="list-style-type: none"> • Constitution – Members’ Code of Conduct • Standards Committee
<p>4. Good governance means taking informed, transparent decisions and managing risk</p> <p>4.1 Being rigorous and transparent about how decisions are taken</p> <p>4.2 Having and using good quality information, advice and support</p> <p>4.3 Making sure that an effective risk management system is in operation</p>	<p>The Council has a formal statement that specifies the types of decisions that are delegated to the executive and those that are reserved for the full Council:</p> <ul style="list-style-type: none"> • Constitution • Decision Making Process <p>The Council states clear objectives for making their decisions. In their public record of decisions and in explaining them to stakeholders, the Council is explicit about the criteria, rationale and considerations on which decisions are based, and, in due course, about the impact and consequences of decisions.</p> <p>Information and professional advice on legal and financial matters is available and used:</p> <ul style="list-style-type: none"> • Decision Making Process • Delegations Procedure • Financial Regulations Procedure <p>The Council operates an effective system of risk management. This includes:</p> <ul style="list-style-type: none"> • Identifying key strategic, operational and financial risks • Assessing the possible effects that the identified risks could have on the organisation • Assessing risks arising from partnership arrangements that could have an impact upon the organisation or its responsibilities to the community • Agreeing on and implementing appropriate responses to the identified risks • Putting in place a framework of assurance from different sources, to show that risk management processes, including responses, are working effectively

	<ul style="list-style-type: none"> • Reporting publicly on the effectiveness of the risk management system including a plan to tackle any significant issues • Making it clear that Cabinet carries ultimate responsibility for the risk management system • Risk Management Strategy • Risk registers • Annual Statement of Internal Control • External and Internal Audit review of Risk Management
<p>5. Good governance means developing the capacity and capability of the governing body to be effective</p> <p>5.1 Making sure that elected Members have the skills, knowledge and experience they need to perform well</p> <p>5.2 Developing the capability of all Members with governance responsibilities and evaluating their performance, as individuals and as a group</p>	<p>The Council is committed to developing the skills that it has decided its Members need, so that they can carry out their roles more effectively:</p> <ul style="list-style-type: none"> • Member Training Plan • Member Induction Programme <p>Individual Members are held to account for their contribution through regular performance reviews:</p> <ul style="list-style-type: none"> • Annual Reports <p>The Council regularly reviews its performance, assesses its ways of working and achievements and agrees an action plan:</p> <ul style="list-style-type: none"> • Next 4 Years • Comprehensive Performance Assessment
<p>6. Good governance means engaging stakeholders and making accountability real</p> <p>6.1 Understanding formal and informal accountability relationships</p> <p>6.2 Taking an active and planned approach to dialogue with and accountability to the public</p>	<p>The Council has made it clear, to itself and to staff, to whom it is accountable and for what. It has assessed the extent to which each relationship serves its purpose, including whether any relationships need to be strengthened and whether any dominate to the detriment of serving the purpose of the organisation and being accountable to other stakeholders.</p> <p>The Council as a whole seeks and welcomes feedback, and ensure that it responds quickly and responsibly to comment.</p>

<p>6.3 Taking an active and planned approach to responsibility to staff</p>	<p>Complaints are a vital and necessary part of feedback, and there is clear leadership on handling and resolving them, and ensuring the lessons learnt are used to improve the service:</p> <ul style="list-style-type: none"> • Consultation Strategy • Complaints Procedure <p>The Council has a clear policy on when and how it consults and involves staff and their representatives in decision making. It has a system in place to protect the rights of staff and has a Whistle Blowing policy.</p>
<p>6.4 Engaging effectively with institutional stakeholders</p>	<p>Each year the Council publishes the organisation's purpose, strategy, plans and financial statements, as well as information about the organisation's outcomes, achievements and the satisfaction of service users in the previous period:</p> <ul style="list-style-type: none"> • Annual Plan • Annual accounts <p>The Council takes the lead in forming and maintaining relationships with the leaders of other organisations as a foundation for effective working relationships at operational levels.</p> <ul style="list-style-type: none"> • Kent Partnership • Public Service Board

By: Chief Executive

To: Governance and Audit Committee – 30 June 2006

Subject: OMBUDSMAN COMPLAINTS

Accountable Officer: Head of Democratic Services

Classification: Unrestricted

Summary and Recommendations: To report:-

(a) the latest position on complaints to the Local Government Ombudsman against the County Council;

(b) the Local Government Ombudsman's Annual Letter to the County Council for 2005/06.

FOR INFORMATION

1. New Local Government Ombudsman Complaints since 1 October 2005

(1) In the six months from 1 October 2005 to 31 March 2006, 43 more complaints about the County Council were made to the Local Government Ombudsman. This excludes the 13 additional complaints which were classified by the Ombudsman as "premature" (ie the Council had not yet had an opportunity to consider them) and which will not therefore be included in the annual statistics on complaints published by the Ombudsman. The latest position in the Ombudsman's consideration of these 43 new complaints and brief details of them on a Directorate by Directorate basis are set out in Tables A and B below respectively:-

Table A

Total new complaints 1/10/05 - 31/3/06	43
<i>of which:-</i>	
Under investigation	0
Not to be investigated (ie no evidence of maladministration)	31
Settled locally (<i>see + in Table B below</i>)	10
Ombudsman's decision awaited (<i>see # in Table B below</i>)	2

Table B

(a) Education and Libraries

05/A/09530	School Transport, West Kent
05/A/08901	Education Appeal, East Kent
05/A/06887	Education Award
05/A/09666 +	Education Admission, West Kent
05/A/10253 +	School Transport, West Kent
05/A/09002	Internal School Matter
05/A/11390 +	School Transport, East Kent
05/A/10748	Internal School Matter
05/A/10833	Internal School Matter
05/A/12749	School Transport, Mid Kent
05/A/13402 +	School Transport, West Kent
05/A/12427	Internal School Matter
05/A/07730	Special Educational Needs, East Kent
05/A/14002	Education Admission, Mid Kent
05/A/14950 +	School Transport, East Kent
05/A/14949	Adult Education
05/A/15960	Exclusion
05/A/15589 +	School Transport, Mid Kent
05/A/11943 #	Special Educational Needs, East Kent
05/A/15325 +	School Transport, Mid Kent
05/A/17445	Internal School Matter
05/A/15616	Exclusion

(b) Social Services

05/A/07876	Care of Child
05/A/10639	Adoption Service
05/A/11212	Cessation of use of Volunteer
05/A/08293 +	Adoption Service
05/A/06053	Services for child with disabilities
05/A/12551	Contact with grandsons
05/A/07416	Blue badge
05/A/12977	Personnel Issue
05/A/09857 +	Employment placement for young adult with disabilities
05/A/16340	Child Protection

(c) Strategic Planning

Environment and Economy

05/A/10467	Boxley Warren - Prohibition of Vehicles
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Planning

05/A/11599	Consultation on Planning Application
05/A/14713	Planning Enforcement
05/A/06670	Objection to Planning Application

Transport Operations

05/A/06870 Claim for Compensation
05/A/10847 Road resurfacing
05/A/08435 Claim for Compensation
05/A/14289 + Delay in finalising invoice
05/A/06292 # Dispute about access to highway

(d) Miscellaneous

05/A/14232 Allegations of corruption and conspiracy
05/A/07870 Failure to control local planning authorities

2. Current Position on Cases Under Investigation

(1) Two complaints have been under formal investigation by the Ombudsman since the time of my previous report last December. The latest position on the two complaints is as follows:-

(a) **Complaint 05/A/04531 - Special Educational Needs**
(first reported to Members in December 2005)

This complaint from solicitors acting on behalf of a child with special educational needs alleged that the County Council failed to provide the child with proper education; failed to provide the support specified in the child's Statement of Special Educational Needs; failed to hold an Annual Review of the child's Statement of Special Educational Needs or respond to a request for statutory re-assessment; and failed to respond to correspondence from the solicitors acting for the child or deal with their complaints.

The solicitors have also made a separate but related complaint against Essex County Council which 'looks after' the child and which placed him in a placement in Kent for a period.

The Ombudsman's Investigator inspected the files (all currently held by Essex County Council) in March and interviewed relevant officers of the County Council in April. The Ombudsman's decision on the complaint is awaited.

(b) **Complaint 05/A/01938 - Care for a Young Adult with Disabilities, West Kent**
(first reported to Members in December 2005)

This complaint alleged that the County Council had failed to provide adequate care for the complainant's daughter since she turned eighteen, or to assess her needs or those of her carer properly.

The Ombudsman's Investigator inspected the files and interviewed relevant officers in September. The Ombudsman then proposed, and the Council agreed, a local settlement under which the Council formally apologised to the complainant about two particular aspects of the complaint.

3. Local Government Ombudsman Annual Letter 2005/06

(1) Each year the Local Government Ombudsman produces an individual Annual Letter for every Council. The County Council's Annual Letter for 2005/06 is attached as Appendix 1 to this report.

(2) The purpose of the Annual Letter is to help Councils learn from the outcome of complaints to the Ombudsman, underpin effective working relationships between Councils and the Ombudsman's office, identify opportunities for the Ombudsman and his staff to provide assistance that a Council may wish to seek in bringing about improvements to its internal complaint handling, and generally provide complaint-based information which the Ombudsman hopes Councils will find useful in assessing and reviewing their performance.

(3) The Annual Letter reflects the generally good working relationship which exists between the County Council and the Ombudsman's office.

4. Complaints Statistics

(1) Appendix 2 attached contains detailed statistics relating to complaints made to the Ombudsman against the County Council over the last three years. It also compares the annual percentage change in the number of complaints made against the County Council with the total number made for England as a whole (although the England total for 2005/06 is not yet available).

(2) Appendix 2 shows that there has been a large and steady increase in the number of Education complaints over the last three years, but no particular pattern to changes in the number of complaints relating to other directorates. The increase in Education complaints - and in the number of local settlements - arose from implementation of the co-ordinated school admissions scheme, coupled with better signposting to the Ombudsman for all unsuccessful appellants. It is also worth stating that it is the County Council's practice always to advise complainants of their right to pursue their complaint with the Ombudsman if the County Council has been unable to resolve it to their satisfaction.

5. Further Information

(1) Further information about any of the complaints or other matters mentioned in this report can be obtained from the Head of Democratic Services

Stuart Ballard
Head of Democratic Services
Ext 4002

Background Documents: Correspondence on individual case files, which is all exempt under paragraph 2 of Part I of Schedule 12A of the Local Government Act 1972 because it contains details of the identity of individual complainants.

COMPLAINTS AGAINST KCC RECEIVED BY LOCAL GOVERNMENT OMBUDSMAN OVER LAST 3 YEARS
(EXCLUDES PREMATURE COMPLAINTS)

Year		Corporate Services	Education & Libraries	Social Services	Strategic Planning	Misc	Total	Percentage Change from Previous Year	
								Kent	England
03/04	Total Complaints Made	8	39	13	13	0	73	+23.7%	+8.4%
	Settled Locally (not investigated)	0	10	1	0	0	11		
	Formally investigated	0	2	2	0	0	4		
	Maladministration Found	0	0	0	0	0	0		
04/05	Total Complaints Made	6	50	21	10	0	87	+19.2%	-1.5%
	Settled Locally (not investigated)	0	24	1	1	0	26		
	Formally investigated	0	6	1	0	0	7		
	Maladministration Found	0	0	0	0	0	0		
05/06	Total Complaints Made	2	86	18	17	2	125	+43.6%	-
	Settled Locally (not investigated)	0	25	3	1	0	29		
	Formally investigated	0	1	1	0	0	2		
	Maladministration Found	0	0	0	0	0	0		
AS AT 20/06/06	Decision on whether to investigate awaited	1	1	0	1	0	3		
	Investigation in progress	0	1	0	0	0	1		

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21 June 2006



**The Commission for
Local Administration in England**

Mr P Gilroy OBE
Chief Executive
Kent County Council
DX 123693
MAIDSTONE 6

Tony Redmond
Local Government Ombudsman

Peter MacMahon
Deputy Ombudsman

Our ref: TR/EDR
(Please quote our reference when contacting us)

**If telephoning please contact: Frank Edwards' Personal Assistant,
Candya Farmer, on 020 7217 4693. Or e-mail: c.farmer@lgo.org.uk**

Dear Mr Gilroy

Annual Letter 2005/2006

I am writing to give you my reflections on the complaints received against your authority and dealt with by my office over the last year. I hope that in reviewing your own performance you will find this letter a useful addition to other information you hold highlighting how people experience or perceive your services.

This year we will publish all our annual letters on our website (www.lgo.org.uk) and share them with the Audit Commission. There is widespread support from authorities for us to do this. We will wait for four weeks after this letter before doing so, to give you an opportunity to consider the letter first. If a letter is found to contain any factual inaccuracy we will reissue it.

In addition to the narrative below there are two attachments which form an integral part of this letter: statistical data covering a three year period and a note to help the interpretation of the statistics.

Complaints received

Last year, we received 155 complaints against your Council, an increase from the previous year's total of 104. There was a significant increase in the number of education complaints (from 52 to 90). Social services complaints also rose. The numbers of complaints within other categories remained stable.

/...

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The increase in the number of education complaints received was 73%, compared with a national average increase of 23%. The increase can be accounted for by the Council's welcome decision that Admissions Appeal Panels' decision letters should signpost disappointed appellants for school places directly to my office without any attempt at a further, internal review by the Council. This change meant that we could address complainants' concerns and reach decisions on their complaints within a shorter time of their unsuccessful appeal. I understand that the change has also led to a considerable reduction in the time which the Council's officers used to spend on correspondence with disappointed appellants.

Parental interest in applications and appeals for admission to secondary schools remains high in the context of many parents' preference that their children should receive selective education. Competition for places at some schools can be intense. There is also related parental interest in applying and appealing for free transport from the home to the child's school. These factors also explain the level of complaints to my office about education.

Decisions on complaints

Last year I made decisions on 144 complaints against the Council. In 42 cases I concluded that there was insufficient evidence of maladministration to warrant pursuing a complaint. In 37 cases I concluded that there were grounds to exercise my discretion not to pursue a complaint. I found that 13 complaints lay outside my jurisdiction. I referred 23 complaints back to your Council as 'premature' because it had not had a reasonable chance to consider them through its own complaints procedure. This represents 16% of all decisions on complaints and is less than the national average of 27%.

I have not found it necessary to recommend significant further action by the Council in response to premature complaints which complainants resubmitted to us after the Council had considered them in its complaints procedure.

When we complete an investigation we must issue a report. In no case did I find fault which required me to issue a report. But there is a significant proportion of investigations that do not reach this stage. This is because we settle the complaint during the course of our investigation. We call these decisions 'local settlements'.

Local settlements

Last year I accepted your Council's offer to settle 29 complaints, compared with 28 in the previous year. The number of settlements represented 27% of all decisions on complaints against your Council (excluding those which were outside jurisdiction or dealt with as premature), compared with the national average of 26%. I give below details of some of the complaints I settled.

Education admissions

The Council helpfully offered to settle 18 complaints (the same number as in the previous year). In 13 cases (compared with 15 in the previous year) it agreed to arrange a fresh appeal hearing by a Panel with a different Clerk and Members and abide by the outcome. The evidence suggests that a number of reheard appeals were successful, resulting in the admission of those complainants' children to a preferred school. The Council's approach is very creditable, as it is for an independent Panel to give an admission appeal the careful consideration it requires and to make a decision.

In two cases, the Council, having refused the complainants' children admission to selective schools, admitted the children to alternative selective schools which were acceptable to them. In neither case did there appear to be fault by the Council in its original decision.

In two cases, the Council offered to admit the complainant's child to an infant class in a preferred school. In one case, there had been an error in the Council's computerised measurement of the home to school distance, and the Appeal Panel had failed to identify that failure as the reason why the child had wrongly been refused admission. In the other case, the Council had not arranged for a Panel to consider evidence as to whether the child should be treated as an 'excepted pupil'. A place, which the parents accepted, then arose at the school.

I warmly welcome all these constructive actions.

In the course of my consideration of these complaints I identified a number of issues:

- A Panel being inquorate at its decision making stage because a panellist had been taken ill during the hearings. (This affected eight complaints, which the Council offered to settle by arranging rehearings of the affected appeals.)
- The apparent loss of parental material for an appeal hearing.
- The signature of Appeal Panels' decision letters by a person other than the Clerk to the Panel. This practice is not consistent with the statutory Code of Practice on Admissions Appeals and can give rise to avoidable inaccuracy in the transmission of a decision from a Panel to an appellant.

- The reluctance of some Panels to consider properly whether the Council has correctly applied its admissions arrangements to the particular appellant child and, if not, whether the child would have been admitted but for the Council's error. If the answer to the second part of the question is in the affirmative, a Panel must uphold the appeal, but some Panels appear reluctant to reach such a conclusion.

Two of my investigators held a valuable meeting with officers of your Council, at which they reviewed the recent changes in the handling of school admissions complaints and discussed in greater detail many of the points set out in this letter. I hope that these annual meetings will continue to be a useful forum for an informal mutual exchange of views and guidance.

Education transport

The Council has a procedure for non-statutory appeals to a Panel of Members against a refusal of home to school transport. Appellants may be supported by their local Member in presenting their case to the Panel. In three cases the Council agreed to arrange either a hearing or a rehearing of a complainant's appeal. In one case the Council agreed, in a welcome development of its established procedure, to provide (if necessary) an alternate if an appellant's local Member were not available to provide support at an appeal. There were some errors in the clerking of appeals, which I am sure the Council will also wish to address.

Special educational needs

The Council offered to settle three complaints of delay by the Council in dealing with the assessment of special educational needs by making payments totalling £5,300 and reviewing the operation of its procedures. I am glad that the Council has taken steps to address this issue.

Social services

In one case, the Council failed to deal appropriately with a mother's complaint following the homicide of her son. There was delay in providing the mother with counselling and in responding to her complaint. By the time the Council had replied, the response was out of date. The Council made a payment of £1,000, apologised for its faults and agreed to review its procedures for dealing with such incidents.

The Council's action to settle complaints included the payment of compensation totalling £6,951 (compared with £9,573 in the previous year).

Your council's complaints procedure and handling of complaints

The Council has a well-established complaints procedure, which contains three stages. The first two stages are based in the service department against which the complaint is made. A complaint at the third stage is made to the Council's Head of Democratic Services acting on your behalf independently of the service complained of. Decision letters at the third stage of the procedure are concise and clear.

The Council usually signposts complainants to the second and third stages of its procedure, and then to my office.

Training in complaint handling

Our training in complaint handling is proving very popular with authorities and we continue to receive very positive feedback from participants. Over the last year we have delivered more than 100 courses from the range of three courses that we now offer as part of our role in promoting good administrative practice.

Effective Complaint Handling was the first course we developed, aimed at staff who deal with complaints as a significant part of their job. Since then we have introduced courses in complaint handling for front line staff and in handling social services complaints.

All courses are presented by an experienced investigator so participants benefit from their knowledge and expertise of complaint handling.

I have enclosed some information on the range of courses available together with contact details for enquiries and bookings.

Liaison with LGO

The Council replies promptly to my first enquiries about complaints. Last year the Council's average time for responding to first enquiries was 23.5 days (22.3 days in the previous year), which is within my target of 28 days. I wish to record my appreciation and to encourage the Council to maintain its high standard.

We appreciate the regular contact between our offices by telephone, fax and email, as well as occasional visits. These conversations include discussions of issues such as whether your Council has considered a complaint, any outcome and possible remedies. Such contacts save both our offices, as well as complainants, time and effort.

Conclusions/general observations

I welcome this opportunity to give you my reflections about the complaints my office has dealt with over the past year. I hope that you find the information and assessment provided useful when seeking improvements to your Council's services. I would again very much welcome any comments you may have on the form and content of the letter.

I would again be happy to consider requests for myself or a senior colleague to visit the Council to present and discuss the letter with councillors or staff. We will do our best to meet the requests within the limits of the resources available to us.

I am also arranging for a copy of this letter and its attachments to be sent to you electronically so that you can distribute it easily within the Council and post it on your website should you decide to do this.

Yours sincerely

A handwritten signature in black ink that reads "Tony Redmond". The signature is written in a cursive style with a large, sweeping initial 'T'.

Tony Redmond

Notes to assist interpretation of the Commission's local authority statistics

1. Complaints received

This information shows the number of complaints received by the LGO, broken down by service area and in total within the periods given. These figures include complaints that are made prematurely to the LGO (see below for more explanation) and that we refer back to the council for consideration. The figures may include some complaints that we have received but where we have not yet contacted the council.

2. Decisions

This information records the number of decisions made by the LGO, broken down by outcome, within the periods given. **This number will not be the same as the number of complaints received**, because some complaints are made in one year and decided in the next. Below we set out a key explaining the outcome categories.

MI reps: where the LGO has concluded an investigation and issued a formal report finding maladministration causing injustice.

LS (local settlements): decisions by letter discontinuing our investigation because action has been agreed by the authority and accepted by the Ombudsman as a satisfactory outcome for the complainant.

M reps: where the LGO has concluded an investigation and issued a formal report finding maladministration but causing no injustice to the complainant.

NM reps: where the LGO has concluded an investigation and issued a formal report finding no maladministration by the council.

No mal: decisions by letter discontinuing an investigation because we have found no, or insufficient, evidence of maladministration.

Omb disc: decisions by letter discontinuing an investigation in which we have exercised the Ombudsman's general discretion not to pursue the complaint. This can be for a variety of reasons, but the most common is that we have found no or insufficient injustice to warrant pursuing the matter further.

Outside jurisdiction: these are cases which were outside the Ombudsman's jurisdiction.

Premature complaints: decisions that the complaint is premature. The LGO does not normally consider a complaint unless a council has first had an opportunity to deal with that complaint itself. So if someone complains to the LGO without having taken the matter up with a council, the LGO will usually refer it back to the council as a 'premature complaint' to see if the council can itself resolve the matter.

Total excl premature: all decisions excluding those where we referred the complaint back to the council as 'premature'.

3. Response times

These figures record the average time the council takes to respond to our first enquiries on a complaint. We measure this in calendar days from the date we send our letter/fax/email to the date that we receive a substantive response from the council. The council's figures may differ somewhat, since they are likely to be recorded from the date the council receives our letter until the despatch of its response.

4. Average local authority response times 2005/06

This table gives comparative figures for average response times by authorities in England, by type of authority, within three time bands.

Complaints received by subject area	Education	Highways	Housing (not incl. HB)	Other	Planning	Social Services	Total
01/04/2005 - 31/03/2006	90	14	0	11	8	32	155
2004 / 2005	52	14	0	8	6	23	103
2003 / 2004	43	12	1	9	3	21	89

Note: these figures will include complaints that were made prematurely to the Ombudsman and which we referred back to the authority for consideration.

Decisions	MI reps	LS	M reps	NM reps	No mal	Omb disc	Outside jurisdiction	Premature complaints	Total excl premature	Total
01/04/2005 - 31/03/2006	0	29	0	0	42	37	13	23	121	144
2004 / 2005	0	28	0	0	17	36	18	17	99	116
2003 / 2004	0	10	0	0	22	16	18	15	66	81

See attached notes for an explanation of the headings in this table.

Average local authority response times 01/04/2005 to 31/03/2006

Response times	FIRST ENQUIRIES	
	No. of First Enquiries	Avg no. of days to respond
01/04/2005 - 31/03/2006	87	23.5
2004 / 2005	51	22.3
2003 / 2004	36	26.8

Types of authority	<= 28 days %	29 - 35 days %	> = 36 days %
District Councils	53.2	25.3	21.5
Unitary Authorities	41.3	34.8	23.9
Metropolitan Authorities	41.7	30.5	27.8
County Councils	55.9	26.5	17.6
London Boroughs	39.4	39.4	21.2
National Park Authorities	100.0	0.0	0.0

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Item No 4

By: The Director of Finance
To: Governance and Audit Committee – 30 June 2006
Subject: DRAFT STATEMENT OF ACCOUNTS 2005-06
Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2005-06.

FOR DECISION

1 INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2005-06 is attached. These need to be approved by Members by 30 June 2006, prior to the issue of the external auditor's report and publication of the Statement of Accounts (Accounts).
- 1.2 Members are encouraged to scrutinise these Accounts and ask questions on the contents therein.
- 1.3 If any Member of this Committee has any questions in relation to these Accounts, then they can be raised prior to the meeting of the Committee with Andy Wood, Head of Financial Management, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts.

2 STATEMENT OF ACCOUNTS - CONTENTS

- 2.1 The content and format of the Accounts is as prescribed in the Accounting Code of Practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which has approval from the Accounting Standards Board as a Statement of Recommended Practice (SORP). The format is very similar to last year, although a few of the notes to the accounts have changed to reflect the 2005 SORP
- 2.2 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-4

- 2.3 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £9m, plus a £7.8m underspend on schools, giving a total underspend in the year of £16.8m. The reasons for these underspends were detailed in the Final Outturn report to Cabinet on 19

June. Since this report there has been an additional £332k underspend relating to the Landfill Allowance Trading Scheme (LATS), detailed in paragraph 2.17.

- 2.4 The net income figures for the budget and outturn for the Education Standards & Pupil Services Portfolio on page 1 of the Accounts are the result of specific grant income, LSC post-16 funding and teachers pay grants being greater than the net budget of the non-delegated service budgets.
- 2.5 The general revenue reserves now stand at £25.8m, a reduction of £2.5m from the 2004/05 level. This is an acceptable level based on the current budget and the Council's identified risks. Specific reserves and schools' reserves are detailed in paragraphs 2.23 to 2.25 in this report.
- 2.6 The capital expenditure for 2005/06 was £24m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £32.4m will be used to fund the re-profiling of the 2006/07 and future years' capital programme.
- 2.7 Schools have £11.4m of capital reserves
- 2.8 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12.

Statement of Responsibilities Page 5

- 2.9 This statement sets out the respective responsibilities of the Authority and the Director of Finance in relation to the production of the final accounts.

Statement on the System of Internal Control Pages 6-7

- 2.10 The Accounts and Audit Regulations 2003 require that a Statement of Internal Control, signed by the Leader and the Chief Executive, is included in the Authority's approved Accounts.
- 2.11 The attached Accounts therefore include such a statement on pages 6 and 7. It confirms that, during the financial year 2005/06, overall Corporate Governance arrangements and internal controls in the Authority were in place and effective in terms of business as well as financial risk. It also confirms that areas where controls need to be developed or improved are known about and are being actioned.

Auditor's Report Pages 8-9

- 2.12 The external auditors will provide an independent opinion as to whether the Statement of Accounts presents fairly the financial position of Kent County Council at 31 March 2006 and its income and expenditure for the year ended 31 March 2006. The audit started in May and is progressing well. A member of the Audit team will provide a verbal update on progress at this

meeting. Following approval of the Accounts by Members, the external auditor will issue a report when the audit is completed. The Accounts are expected to be formally signed on 21 July, assuming no material errors are found that remain uncorrected. Pages 8-9 are blank to accommodate this report.

Accounting Policies Pages 10-13

- 2.13 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP) and have no change from the previous year

Summary Revenue Account and Notes Pages 14-23

- 2.14 The Summary Revenue Account is accompanied by a set of explanatory notes. The revenue account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year which resulted in a net General Fund deficit of £2.5m (third line from the bottom of page 14). This amount represents the writing-out of the capital account the previous years' spend on Turner Contemporary. In writing out the spend, we also release an equivalent level of capital funding, and this capital funding was used to replace budgeted revenue contributions to capital, thereby mitigating the impact on the revenue reserve. The revenue budget underspend in 2005/06 is transferred into the rolling budget reserve and is therefore included in the third block of the Summary Revenue Account.
- 2.15 The Accounting Code of Practice states that we must reflect the cost of using assets in the provision of services. We do this by including capital charges (depreciation and a notional interest charge) within the net expenditure line for each of the service headings shown in the summary revenue account. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Asset Management Revenue Account and the Reconciling amount for provision for loan repayment. This means that the revenue account is only charged with the true interest costs from borrowing and the statutory provision for the repayment of debt. The notes on page 17, relating to the Asset Management Revenue Account and Provision for Loan Repayments, provide the figures for the adjustments made.
- 2.16 Note 14 on page 22 details the turnover and profit of Kent Top Temps Ltd. We have agreed with our auditors that this is not material enough to warrant the creation of Group Accounts for KCC. The accounts of KTT Ltd are separately audited and are available to Members on request.
- 2.17 Note 17 on page 23 summarises the position on Landfill Allowance Trading Scheme (LATS). The accounting entries for this are embedded in the Summary Revenue Account and Balance Sheet. The estimated residual allowance of £20.20 per tonne gives a net income of £332k, which is represented in the balance sheet by stock and creditors with the balance of £332k in the rolling budget reserve.

Balance Sheet and Notes Pages 24-37

- 2.18 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2006, and is accompanied by explanatory notes. The statement shows the balances and reserves at the Authority's disposal, its long term indebtedness, and the fixed and net current assets employed. The principal movements on the balance sheet are described below.
- 2.19 Long-term assets have increased by £176m. This is due to three factors:
- Our significant levels of capital investment
 - The revaluation of our land and buildings. The notes on page 27 detail the basis of the valuation
 - Long term investments of £66m.
- 2.20 Current Liabilities are up by £22m, This is due to an increase in overdrawn bank balances, which are more-or-less off-set by the cash and bank balances held within current assets. This is a managed position and is informed by our cash-flow projections.
- 2.21 Long-term liabilities are up by £91m, which is due to:
- An increase in our long-term borrowing of £60m, due to the borrowing required to fund our capital programme, partially off-set by debt repayment through 2005/06
 - An increase in our 'pension fund deficit' of £33m. Note 8 on page 35 provides the information on this movement
- 2.22 Our net worth of £659m is made up of the various reserves, accounts and balances shown in the balance sheet on page 25. Each of those is described in more detail in the attached accounts on pages 38 to 45, and is summarised in the following paragraphs.

Total Movements in Reserves Pages 38-45

- 2.23 Earmarked revenue reserves total £74.1m, including £10.3m in the rolling budget reserve. Cabinet will consider the use of this reserve at their meeting in July. Details of each of the earmarked reserves are shown on Pages 40 and 41 of the Statement of Accounts.
- 2.24 Schools' reserves continue to grow. Schools now hold £62.5m of revenue reserves and £11.4m of capital reserves. In addition, there is £8.1m of unallocated schools' budgets that will be allocated to schools during 2006/07, based upon decisions by the Schools Forum and its sub-groups.
- 2.25 Capital reserves stand at £32.4m and are needed to fund the re-phasing of the 2005/06 capital programme into future years. In addition to this, we do have funding within the current assets part of the balance sheet, which reflects our treasury management policy of borrowing when it is right to do

so, and not specifically when that funding is needed to fund capital expenditure. As a consequence, we transfer any surplus interest received into the Prudential Equalisation Reserve to ensure that our medium term financial strategy on the revenue budget isn't affected by re-phasing of capital expenditure.

Cash Flow Statement and Notes Pages 46-49

- 2.26 This statement summarises the inflows and outflows of cash arising from transactions with third parties for both revenue and capital purposes. The statement shows that there has been a net cash outflow of £5m.

Pension Fund Accounts Pages 50-61

- 2.27 These are a summarised extract of a more detailed statement produced for the Pension Fund.

Glossary Pages 62-63

- 2.28 A glossary of some of the terms used within the Accounts is provided.

Other Issues

- 2.29 Each year, our external auditors have to produce a letter setting-out how the audit went operationally, highlighting areas of concern, and listing all errors that they have found in the Accounts that we have decided not to adjust in the final Accounts, regardless of the size of the error. The list is known as the Statement of Unadjusted Differences (SUD), and the letter that was known as the SAS610 is now the ISA260.
- 2.30 Last year, members of this Committee were informed of the new, tighter deadlines for approving the Accounts this year, and of the potential implications of that. An extract of that is reproduced below:

'For the 2005/06 Accounts, Members must have approved them by 30 June, for publishing by 30 September. This represents a very significant challenge for the Authority.'

We have already reduced the end-to-end process within Finance by over 3 months in the past 2 years, but we are now in a position where only fundamental changes to our year-end processes will produce a set of Accounts by mid June.

We have been working closely with our external auditors to explore ways of meeting next year's deadline, and we will continue to do so. A meeting is being scheduled for September to bring together ideas from service directorates, the Corporate Finance teams and our external auditors. Almost inevitably, any new processes, allied to the shorter time available to close the accounts, is going to reduce the degree of accuracy of the final results, although not to a material degree. This is also likely to reflect in our SAS610 and SUD report next year.'

2.31 It has indeed proved to be a significant challenge, but one that has been met. We presented the attached draft of the Accounts to PwC on 5 June. Prior to that, PwC had already audited the Chief Executive's Dept, Commercial Services and Strategic Planning accounts. The audit of Social Services and Education & Libraries began on 12 June. All the paperwork requested by the auditors has been available to them on time, and the professionalism of their audit approach has been exemplary. Inevitably, the statement made last year and reproduced above will indeed lead to a number of relatively minor issues. These will be reflected in the auditors' ISA260, which may also include issues where there is a differing approach recommended by PwC compared to our own plans. We will then need to decide whether or not to amend the Accounts to reflect those items. In deciding, we will take into account the time involved in correcting the errors compared to the benefit of making the corrections. The final decision on this will be subject to the approval of the Chairman of this Committee. If we decide not to correct any or some the errors, the contents of the ISA260 will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

4 RECOMMENDATION

4.1 Members are asked to:

- (a) Consider and approve the Statement of Accounts for 2005-06 subject to The Chairman, Shadow Chairman and Liberal Democrat Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.

Andy Wood
Head of Financial Management
Ext: 4622

Lynda McMullan
Director of Finance
Ext: 4550

Kent County Council 2005/06 Report to those charged with governance (ISA (UK&I) 260) - Draft



Members of the Governance and Audit Committee
Kent County Council
County Hall
Sessions House
Maidstone
ME14 1XG

30 June 2006

Ladies and Gentlemen

We are pleased to present our report in connection with the audit of the 2005-06 Financial Statements. At the time of writing this report the external clearance meeting between officers and the audit team had not taken place and there are several matters that are still under discussion.

We would like to express our thanks to the management and staff at Kent County Council for the assistance given to us during the course of our work.

Yours faithfully

PricewaterhouseCoopers LLP
Encs

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our 2005/06 audit of Kent County Council's ("the Authority's") financial statements.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken in forming our opinion on the Authority's Use of Resources under the Code of Audit Practice.

Our work during the year was performed in line with the plan that we presented to members on 15th April 2005. We have issued or plan to issue a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

We have set out below the most important issues that have arisen during the course of our work.

Audit of the Financial Statements

We have now completed a significant part of our audit of the Authority's 2005/06 Financial Statements. We have noted several matters that we wish to bring to your attention including:

- Contract Services (DSO) pension provision;
- Schools Project Team;
- The Shepway Contract; and
- Matters relating to PFI contracts.

These matters have been set out in more detail within the Audit of Financial Statements section of this report.

We anticipate, at the time of writing this report, that we will issue an unqualified audit opinion on the financial statements, subject to the audit being completed with no errors individually or in aggregate being identified. The following audit areas are still to be completed:

- Pension Fund Audit;
- Audit of the Education and Social Service Directorates;
- Capital Testing;
- Review of the supporting evidence for the Statement of Internal Control; and
- Some areas of the directorate consolidation process.

Use of Resources

Under the new Audit Commission Code of Practice we are required to give an opinion on the Authority's use of resources. This opinion has been arrived at following an assessment of the Authority against a set of criteria issued by the Audit Commission. We are pleased to confirm that at the time of writing this report we propose to issue an unqualified opinion on Use of Resources, subject to the successful completion of our review of the management arrangements covering the Authority's Best Value Performance Indicators.

One targeted review was undertaken during 2005/06 as part of the audit. This was a Joint Review of Capital Monitoring undertaken with the Authority's Internal Audit Section.

This review identified a number of areas of good practice, including the new capital project approval process. Some areas for development were also identified, particularly around project management of specific projects.

The findings from this review have been summarised in the Use of Resources section of this letter.

Audit of the financial statements

Formal communication of relevant audit matters to those charged with governance (ISA 260 Report)

ISA 260 - "Communication of audit matters to those charged with governance" requires us to communicate relevant matters relating to the audit of the financial statements to those charged with governance of the entity, sufficiently promptly to enable them to take appropriate action. We have agreed with you that these matters should be communicated to the members of the Governance and Audit Committee through this letter.

ISA 260 specifically requires us to communicate the following matters to those charged with governance:

- Expected modifications to the auditors' report;
- Unadjusted misstatements;
- Material weaknesses in the accounting and internal control systems identified during the audit;
- Views about the qualitative aspects of the entity's accounting practices and financial reporting;
- Matters specifically required by other auditing standards to be communicated to those charged with governance; and
- Any other relevant matters relating to the audit.

The table below details how each of these requirements have been met and where they are reported in this letter.

ISA 260 Requirement	Where Reported
Expected modifications to the auditors' report	None
Unadjusted misstatements	Appendix B
Material weaknesses in the accounting and internal control systems identified during the audit	Accounting issues section
Views about the qualitative aspects of the entity's accounting practices and financial reporting	Accounting issues section
Matters specifically required by other ISAs (UK and Ireland) to be communicated to those charged with governance	None
Any other relevant matters relating to the audit.	None

ISA 260 also requires us to communicate with those charged with governance regarding:

- The concept of materiality and its connection to our audit approach;
- Our approach in addressing the risk of material misstatement;
- Our approach to the assessment of, and reliance on, internal controls;

- Intended reliance on the work of internal audit;

- The work to be undertaken by any other firms of auditors, and how we will obtain assurance over the procedures of other auditors; and

- The independence and objectivity of the audit team.

These matters have already been communicated to you in the audit service plan and we have no changes to report to you. In particular we remain independent within the requirements of ethical and auditing standards.

Accounts

We are in the process of completing the audit of the Authority's accounts in line with the 'Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP)' and relevant Auditing Standards. At the time of writing this report we anticipate issuing an unqualified opinion, subject to the completion of work in the following areas:

- Pension Fund Audit;
- Audit of the Education and Social Service Directorates;
- Capital Testing;
- Review of the supporting evidence for the Statement of Internal Control; and
- Some areas of the directorate consolidation process.

A verbal update will be provided to the Governance and Audit Committee on the above outstandings and any further matters that may have arisen between the time of writing this report and the Governance and Audit Committee.

Accounting issues

We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature (items less than £1,000). These misstatements are set out in Appendix B to

this report.

ISA 260 requires us to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have detailed below any control weaknesses that we have identified as part of our audit.

Recognition of Fixed Assets

Our testing has identified a number of assets in Highways, with an initial value of £5m, that were not initially included on the balance sheet on purchase. On further investigation we identified that these were items such as road side cameras. It was not clear where these items had been charged and they had not been picked up centrally as capital expenditure.

This error occurred pre 2005/06 and controls have now been put in place (since 2003/04) to ensure that asset registers are reconciled to capital expenditure, ensuring that all expenditure is picked up and correctly categorised in the financial statements.

The error has been corrected and the assets recognised in the 2005/06 financial statements. However, further targeted training is planned for service/budget managers and finance staff to ensure that all expenditure is appropriately categorised as capital or revenue in accordance with the Authority's accounting policies, the SORP and Financial Reporting Standard (FRS 15).

At this stage we have not identified any further control weaknesses that we wish to bring to your attention other than those relating to the matters documented below, which are the more significant matters that arose from our work.

Direct Services Organisation (DSO) Pension Provision

Contract services were externalised in 1999, however, the Authority remained liable for the pensions of the 102 people who transferred to the new DSO. An actuarial valuation was performed at this point and a provision for paying these pensions was set up within the Strategic Planning Directorate (now Environment and Regeneration).

A more recent actuarial valuation was carried out in June 2005 by Hymans Robertson, which estimated a liability of £2,017k. Currently this liability has not been recognised in the financial statements as required under FRS 17 'Retirement Benefits'. This has resulted in the balance sheet being overstated by £2,017k.

The accounting entries required under FRS 17 to account for this pension scheme should be included within the financial statements. This item has been taken to the Statement of Unadjusted Differences in Appendix B.

This matter is still being discussed.

Schools Project Team

The Authority has a large Education capital programme and this requires a project team to co-ordinate the various projects, particularly those for schools where they do not have the skills or the capacity to manage the projects themselves. The salary costs of this team may be capitalised as part of the cost of a capital project if they can be shown to be directly attributable to a specific capital project. This would be comparable with a situation where the Authority engaged independent consultants to project manage building projects.

Currently the Authority does not attribute the costs (£1.9m in 2005/06) to individual projects, therefore we have not been able to confirm that these costs meet the definition of capital expenditure as set out in the SORP. This has been proposed as an adjustment in our Statement of Unadjusted Differences in Appendix B.

We understand that due to the nature and volume (over 200) of projects it is difficult to accurately attribute costs to individual projects. However, salary costs of the project team should be apportioned on a reasonable basis to individual projects once the Authority has reviewed the costs against the requirements in the SORP to ensure that the nature of costs is appropriate to capitalise.

Shepway Contract

Services are provided to Shepway District Council by the Landscape Services Division of Commercial Services. At the start of the arrangement, in August 2004, there was a general agreement as to what services would be carried out under this arrangement. A "heads of agreement" was produced setting out the broad areas that would be covered. This document does not set out the detailed obligations for each party under the arrangement, as it was the intention that it would form the basis of detailed negotiations.

We understand that negotiations are currently taking place to develop a revised contract setting out these obligations. Although we understand that Shepway have paid for all services delivered in the past and that any default in payment would lead to the Authority ceasing the delivery of services to Shepway, a contract should be agreed at the earliest opportunity as without it there remains a theoretical risk of dispute over the services provided or the level of payment.

PFI Contracts

The Authority is currently involved in a number of significant PFI schemes. They include the Westview and Westbrook integrated care homes that became operational in 2005. We have tested the contract expenditure and it has been appropriately accounted for in the 2005/06 accounts.

Negotiations were concluded and contracts signed in October 2005 for a Schools PFI scheme, involving the redevelopment of 6 schools. The Authority has removed an estimate of the asset value from their balance sheet where all or part of the school has been transferred over to the contractor and building work has commenced.

Accounting for PFI schemes is complex and the Authority should ensure that it has considered all the implications of the above schemes, the timing of any impairment adjustments and the rights to ownership of the assets on cessation of the contract. Where contracts have been signed, this should be done before signature of the accounts to ensure that any necessary entries are made.

Electors' Questions

We have received several Electors Questions since the presentation of 2004/05 audit letter. The areas on which we have received questions are:

- Turner Contemporary;
- Laddingford Church of England Primary School;
- Oakwood House; and
- A highways scheme in the Summer House Drive Area.

A number of the issues raised have been included in our audit programme and are reported elsewhere in this letter, where appropriate.

Financial Standing

The Authority reported a deficit of £2,500k in 2005/06, caused by writing off costs relating to the Turner Contemporary. During 2005/06 the Authority under-spent by £8,957k (excluding the delegated Schools' budget and Turner Contemporary costs), most of which resulted from the re-phasing of revenue funded projects. The main areas of this under-spend were:

- Education Standards & Pupils Services - £2,976k;
- Regeneration - £1,463k; and
- Finance - £3,512k.

The reserves balances as at 31 March 2005 were:

- General Fund - £25,835k
- Earmarked Capital Reserve - £24,884k
- Earmarked Revenue Reserves - £74,094k

Schools' reserves were £65,626k as at 31 March 2006, an increase of

£4,928k on 2004/05.

Capital Budget Outturn

Capital outturn for 2005/06 was £237,449k, £31,502k of which was delegated to schools. The total capital budget for the year (not including delegated schools capital budgets) was £230,623k, although final approval to spend is only given when the project is approved. There was therefore re-phasing of £23,959k into future years.

Capital outturn can be split across portfolios as shown below.

Portfolio	£000's
Education Standards & Pupil Services	91,327
Community Services	12,335
Social Care & Community Health	10,229
Strategic Planning	35,725
Regeneration	38,470
Finance	3,787
Resources	13,593
Supporting Independence, policy, performance and best value	481
Total (excluding schools)	205,947
Capital devolved to Schools	31,502
Total	237,449

A joint review of capital monitoring was undertaken during 2005/06 with Kent's Internal Audit Section. The results of this review have been summarised in the Use of Resources section of this report. The internal audit report has yet to be finalised.

Trading Operations

Trading operations performed well during the year. A total operational surplus of £3,627k was achieved. Surpluses were achieved by all but 1 of the 10 trading operations. Kent Cleaning and Contracting Services made a loss of £1k caused by the additional costs of closing down this operation. Other operations performed well and returned surpluses even where business has been expanded during the year, for example, the expansion of passenger transport operations.

The Authority currently only discloses activities undertaken by its Commercial Services Directorate as trading operations within the financial statements. However, the Authority also undertakes a number of other activities that meet the CIPFA definition of a trading activity. These include:

- Oakwood House;
- Personnel and Development services;
- Legal Services; and
- Schools Support Services.

The SORP gives the Authority discretion on what it discloses as a trading operation in the financial statements, however, consideration should be given to disclosing some or all of the above in the financial statements as trading operations.

Financial Outlook 2006/07

Gross expenditure of £1,987m has been budgeted in 2006/07 (£1,888m in 2005/06). Expenditure to be met by council tax has increased from £455.6m (2005/06) to £482.1m (2006/07). The main causes of this rise are:

- Pay and price increases - £26.9m
- Government/legislative pressures - £10.6m
- Demand – led pressures & delivering “Next 4 Years” targets - £9.4m

- Delegated schools budget - £35.4m
- Service strategies and improvements - £24.2m

Within the 2006/07 budget there are proposed savings and additional income of £35.3m.

The above increases in costs have resulted in a council tax increase of 4.75%.

Internal Audit

We have maintained a good working relationship with Kent Audit (the Authority’s internal audit service) during 2005/06.

As part of our wider assessment of the Authority’s control environment we are required to review the internal audit arrangements. We have reviewed the 2005/06 Internal Audit plan and, where applicable to our audit approach, individual audit reports.

We have been able to place reliance on the work performed by Kent Audit in areas of our financial statements audit. This enables us to perform a more focused audit in higher risk areas and to minimise any risk of duplication of work.

We have undertaken a joint project with internal Audit this year, in the area of capital (as reported elsewhere). We have found this to be an effective way of working and more efficient than undertaking separate reviews. Our different skills and experience have been complementary.

Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption

At the time of writing this report we have reviewed the reports produced by Internal Audit for the Governance and Audit Committee on cases of fraud and irregularity that they have investigated. There have been no other matters raised in this area in the period.

The Legality of Financial Transactions

At the time of writing this report and with the exception of matters raised with us by electors, and those which we have discussed with officers, there have been no matters raised in this area in the period.

Use of Resources

Work performed

We have performed sufficient work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources Judgement
 - Financial Reporting
 - Financial Management
 - Financial Standing
 - Internal Control
 - Value for Money
- Use of Resources Opinion
- Statement of Internal Control
- Targeted audit work – Capital Monitoring Review

Under the new Audit Commission Code of Practice we are required to provide an opinion on the Authority's use of resources. This involved us assessing the Authority against a set of criteria issued by the Audit

Commission. At the time of writing this report we propose to issue an unqualified conclusion on Use of Resources, subject to the successful completion of our review of the management arrangements covering the Authority's Best Value Performance Indicators.

Statement on Internal Control

In 2005/06, all local authorities are required to produce a Statement of Internal Control (SIC). The SIC was included within the Authority's financial statements.

The SIC disclosed whether the Authority has had risk management and review processes in place for the whole of the period 1 April 2005 to the date on which the accounts were signed.

We reviewed the SIC to consider whether it complied with the CIPFA guidance and whether it is misleading or inconsistent with other information known to us from our audit work. To date we have found no areas of concern to report in this context, however, we are still completing our review of the supporting evidence for the SIC.

Targeted audit work

Capital Monitoring

During 2005/06 one piece of targeted performance work was completed. This was a joint review, undertaken with Kent Audit (the Authority's internal audit team), of Capital Project Monitoring. This was an area identified as high risk by Internal Audit in their 2005/06 plan and also by us in our 2005/06 Joint

Audit and Inspection Plan.

The review focused on two key areas:

- Capital budget monitoring; and
- Capital project management.

Three projects were selected for review in more detail, these were:

- The Turner Contemporary (Mark 1);
- Grove Park; and
- Broadmeadow

A number of areas of good practice were noticed in capital budget monitoring and capital project management. These included:

- The introduction of the new capital approval process has helped to ensure that all projects are aligned to the Authority's strategic objectives, as well as ensuring that projects are properly specified, costed and planned before commencement;

- The Authority's Property Group provide support to project teams and are currently developing a Practice Manual for project managers;
- Capital receipts received from the sale of assets are closely monitored against the target for the year; and
- Clear capital budget monitoring procedures are in place and operating at both Directorate and Corporate levels.

However, some areas for development were identified. These included:

- A programme and portfolio management role could be developed within the Authority, including identifying risks and interdependencies between projects;

- Key Performance Indicators should be built into each business case and are reported on by project managers at regular intervals;
- Project scrutiny could be improved by reporting taking place at key stages of the project;
- Every significant and/or high risk project should have a properly constituted project board that governs, monitors and directs the project through its life cycle;
- Significant projects should be evaluated regularly to ensure that benefits are being realised against a benefits realisation plan;
- Post project evaluation reports should be completed for every significant project to enable the lessons learnt to be applied to future projects;
- Monitoring reports should contain initial project costs, timescales against actual and projected status; and
- Consideration should be given to having a central core project management team (centre of excellence) that supports the delivery of the capital programme across the Authority. This could be an expansion of the model already operating within Education.

Turner Contemporary

The Turner Contemporary was a significant, high profile project being undertaken by the Authority. We raised this as a risk in our 2005/06 Joint Audit and Inspection Plan and have received several questions from electors on this topic. We have looked at this project in more detail as part of the Joint Review of Capital Monitoring and also as part of our financial statements audit.

Several matters have been identified about the project management of the Turner Contemporary. This project was initially proposed by a resident in the early 1990s. A pre-feasibility study was then undertaken in 1999, which identified options for developing a Turner Centre. In 2000, the Council commissioned, through OJEU, an architectural competition for the design of the Turner Centre and Snohetta and Spence ("Snohetta") were selected as

the winner from 150 submissions. Snohetta then developed the designs.

In March 2003, David Langdon and Everest (cost consultants and project managers) explored various procurement options and recommended a two-stage lump sum route. However, this recommendation was revised in April 2003 to design and build. In 2004, Edmund Nuttall Limited (ENL) was selected as the design and build contractor and work commenced in July 2005.

The initial separation of design from construction and then the decision to change to design and build later in the design process, may have meant that buildability was not given sufficient prominence at the design and selection stages. Similarly, the change from traditional construction procurement route (i.e. where design is separated from construction) to a design and build (where design and construction are undertaken by the same contractor) part way through the procurement process, may have contributed to the delays in the project.

The costs of the project continued to escalate. Initial estimates of the cost, back in 1999, were expected to be £7.5m (£5.6m for construction). By 2005 the estimated costs had risen to £29.5m (£20m for construction). In 2005 a preferred bidder was selected for the project and following their detailed analysis costs were revised to £48m. At this point the project, in its current form, was abandoned. We understand that an internal investigation is currently being undertaken into whether the project was properly specified and costed from the outset and to identify any potential lessons to be learnt for any version 2 of the project.

It is possible that the new capital approval process would have helped to prevent some if not all of the above problems arising as there would have been a full project approval process, including detailed scrutiny of the projected costs and business case/specification for the project.

Audit plans and fees update

Audit Plan 2005/06

We issued our Audit Plan for 2005/06 and presented it to Members on 15th April 2005.

We have reviewed and reported as appropriate on each of the risks identified in our Audit Plan. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Fees update for 2005/06

We reported our fee proposals as part of the Audit Plan for 2005/06.

Our fees charged were:

	2005/06 Outturn	2005/06 Fee proposal
Accounts	£235,440*	£235,440
Value for Money	£121,900	£121,900
Total	£357,340	£357,340

* Subject to the successful completion of the financial statements audit and the assumptions set out in the 2005/06 Joint Audit and Inspection Plan still being met.

The fees above include an amount of £5,170 charged by the Audit Commission's Relationship Manager.

Appendix A: Audit reports issued in relation to the 2005/06 financial year

The following audit reports have been issued in relation to the 2005/06 financial year:

- Draft Capital Monitoring Report – Joint Review with Kent Audit.

We expect to issue the following reports relating to 2005/06 following the completion of our audit:

- 2005/06 Grant Claim Audit Report (report to management);
- 2005/06 Pension Fund Audit Report (a separate audit of the pension fund has been completed during 2005/06); and
- 2005/06 Internal Controls Report (report to management).

Appendix B: Summary of unadjusted misstatements

We have identified the following matters during our audit of the financial statements that have not been adjusted by management. The Governance and Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Income & Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
Education Capitalised salary costs for the Education Project Team charged to capital spend and written out to the Fixed Asset Restatement Account.	(2) Expenditure 1,871,000		(1) Fixed assets 1,871,000 (Reversal of write off to FARA)	(1) Fixed Asset Restatement Account 1,871,000 (Reversal of write off to FARA) (2) Fixed asset additions 1,871,000
Strategic Planning Entries required to recognise employers' pensions liabilities as required under FRS 17	Cost of Services TBC	Transfer to Pensions Reserve TBC	Pensions Reserve 2,017,000	Pensions Liability 2,017,000

Unadjusted Misstatement	Income & Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
Strategic Planning Provision for long term debtors is understated as a portion is known to be irrecoverable	Bad debt expense 5,000			Provision for long term debtors 5,000
Commercial Services Incorrect Creditor Cut-off for vehicles purchased for the Kent Fleet to be sold to a client.	(1) Expenditure (Kent Fleet) 317,500	(2) Income 319,000	(2) Debtor 319,000	(1) Creditor 317,500
Commercial Services Passenger Services annual service contract incorrectly capitalised with asset	Expenditure 1,600			Fixed assets additions 1,600
Commercial Services Incorrect posting to cash book		VAT Expense 1,500	Cash 1,500	
Commercial Services Incorrect recognition of creditor and expense - KCS		Expense 13,800	Trade Creditors 13,800	
Corporate Services Bad debt provision overstated		Bad debt expense 3,500	Bad debt provision 3,500	

Unadjusted Misstatement	Income & Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
<p>Corporate Services</p> <p>A provision regarding the theft of laptops was set up following a theft of one laptop in 2001/02. As no laptops have been recorded as stolen in the last 3 years, this provision should be released.</p>		<p>Corporate Services Expenditure 40,000</p>	<p>Laptop provision 40,000</p>	
Total	2,124,100	377,800	3,627,800	5,374,100

In the event that, pursuant to a request which Kent County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Kent County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Kent County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Kent County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2005-06 and the overall financial position of the Council. This foreword aims to give a general guide to the main features of the information reported within the rest of the Accounts and provides a summary of the Council's overall financial position.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Accounting Standards Board and the Government.

The accounting arrangements of any large organisation such as Kent County Council are complex, as is local government finance. These Accounts are presented as simply as possible whilst recognising that it is necessary for some technical terminology to be used. To help you understand the Accounts, the main statements are supported by explanatory notes and a glossary of terms used is shown on pages 62 and 63.

The Accounts consist of:

- The Summary Revenue Account, page 14, which shows expenditure and income for all services.
- The County Fund Balance Sheet, page 24, which sets out the financial position of Kent County Council as at 31 March 2006.
- A Statement of Total Movements in Reserves, page 38.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 46.
- The Pension Fund Accounts - an extract from the more detailed published statement, page 50.
- Notes to support the above primary statements.

Revenue Budget and Outturn

In February 2005 the Council approved a net revenue budget for 2005-06 of £1,344.907m. In addition £7.751m of 2004-05 underspending was rolled forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

PORTFOLIO	Budget	Outturn	Variance
	£'000s	£'000s	£'000s
Education Standards & Pupil Services - (Non Delegated)	-67,929	-70,905	-2,976
School Organisation & Early Years	32,617	32,703	86
Community Services	36,386	35,863	-523
Social Care & Community Health	318,457	317,971	-486
Environment & Transport	115,083	114,856	-227
Regeneration	9,361	7,898	-1,463
Finance	84,521	81,009	-3,512
Resources	42,988	43,123	135
Policy Development	1,909	1,918	9
	<hr/>	<hr/>	<hr/>
	573,393	564,436	-8,957
Education Standards & Pupil Services - (Delegated Schools)	779,265	771,431	-7,834
	<hr/>	<hr/>	<hr/>
	1,352,658	1,335,867	-16,791

Foreword

FUNDED BY:-			
Reserves (rolling budget reserve)	7,751	7,751	0
Revenue Support Grant	478,053	478,053	0
National Non Domestic Rates Income	410,515	410,515	0
Council Tax	456,339	456,339	0
Total Funding	1,352,658	1,352,658	0
NET OUTTURN POSITION	0	-16,791	-16,791

The net underspending within the portfolios of £8.957m (excluding schools) has been carried forward and added to the 2006-07 budget to support the re-scheduling of projects, which accounts for the majority of the underspend, and to focus upon achieving the Council's key priorities and service improvements.

Schools

In total, schools underspent against available resources by £7.834m. Of this, £1.8m was in respect of underspending of delegated schools budgets. The remainder of the underspending is in respect of unallocated schools budgets of £6m, of which £3.6m is attributable to Special Transitional Grant awards and £1.9m is Standards Fund. The closure and merging of schools during the year, with an overall net deficit balance, resulted in the transfer of £0.3m from the unallocated schools budget to the delegated schools revenue budget reserves. Schools now have some £62.5m of revenue reserves and there is £8.1m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2006 is £25.8m. This is a reduction of £2.5m from the previous year and reflects the impact of the write-off of expenditure incurred on the Turner Contemporary project.

Foreword

Capital

Capital expenditure is defined as expenditure on purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure is incurred. Capital expenditure for the year was £237.4m. The expenditure analysed by portfolio was:-

PORTFOLIO	Budget £'000s	Outturn £'000s	Variance £'000s
Education Standards & Pupil Services	97,447	91,327	-6,120
Community Services	24,148	12,335	-11,813
Social Care & Community Health	12,068	10,229	-1,839
Strategic Planning	40,851	35,725	-5,126
Regeneration	38,768	38,470	-298
Finance	3,800	3,787	-13
Resources	13,041	13,593	552
Supporting Independence, Policy, Performance and Best Value	500	481	-19
	<hr/> 230,623	<hr/> 205,947	<hr/> -24,676
Devolved Capital to Schools	30,785	31,502	717
	<hr/>	<hr/>	<hr/>
TOTAL	<hr/> 261,408	<hr/> 237,449	<hr/> -23,959

Expenditure excluding that incurred by schools under devolved arrangements was £25.008m less than cash limits. The underspend reflected re-phasing of capital expenditure plans across all services. These unspent capital resources will be carried forward into 2006-07 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2005-06 was £31.5m and at 31 March 2006 schools have in hand some £11.4m of devolved capital funding, which will be carried forward to 2006-07 as part of the overall schools reserves position.

Details of the main items of capital expenditure are shown on page 29 and 30, and details of the financing of capital expenditure are on page 28.

Capital Reserves

At 31 March 2006 the Council has earmarked and other capital reserves of £32.4m as detailed on page 43.

Insurance Fund

Financial Reporting Standard (FRS) 12 requires that full provision should be made for all known insurance

Based on current estimates of the amount and timing of fund liabilities the insurance provision at 31 March 2006 is established at a level sufficient to meet all known claims and is therefore in accordance with the requirements of FRS 12. Details can be found on page 34.

Foreword

Pension Fund

Local authorities are required to comply with the disclosure requirements of FRS 17 - Retirement Benefits. Under FRS 17, the Authority is required to reflect in the primary statements of the Accounts, the assets and liabilities of the Pension Fund attributable to the council and the cost of pensions. FRS 17 is based on the principle that the Council should account for retirement benefits when it is committed to give them even though the cash payments may be many years into the future. This commitment is accounted for in the year that an employee earns the right to receive a pension in the future. These disclosures are reflected in the Summary Revenue Account, the Balance Sheet and the Statement of Movement in Reserves.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2005-06, earlier years and for future years. The balance currently stands at £882.6m.

Future capital expenditure will be financed from borrowing, revenue contributions, sale of surplus fixed assets, capital grants and contributions, and relevant funds within earmarked reserves.

Further information about the Accounts can be obtained from Andy Wood, Head of Financial Management or Cath Head, Chief Accountant.

Telephone Maidstone (01622) 671411 or e-mail andy.wood@kent.gov.uk or cath.head@kent.gov.uk.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance;
- to manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets; and
- to approve the Statement of Accounts.

I confirm that these Accounts were approved by the Governance and Audit Committee at its meeting on 30 June 2006 on behalf of Kent County Council.

Councillor Charles Findlay
Chairman of the Audit Committee

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice'), and is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2006.

In preparing this Statement of Accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Director of Finance

I certify that the Statement of Accounts set out on pages 14 to 61 present fairly the financial position of Kent County Council at 31st March 2006 and its income and expenditure for that year.

Director of Finance

1. Introduction

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In order to ensure this, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal, and ensuring that an effective system of risk management and internal controls is maintained.

2. Summary Of Arrangements and their Effectiveness

Corporate Governance

In March 2003 the Council approved and adopted a Code of Corporate Governance, which is consistent with the principles, and reflects the requirements of, the CIPFA/SOLACE framework "Corporate Governance in Local Government: A Keystone for Community Governance". During 2005-06, this Code was updated to reflect new national guidance on the principles of good governance across all public services. The revised Code identifies the critical processes, policies and procedures which secure effective corporate governance and the Council's "Governance and Audit Committee" has oversight of its implementation on behalf of the Council. The Chief Internal Auditor has reported that the arrangements in place during 2005-06 to secure effective Governance gave us a substantial level of assurance.

Risk Management

In 2005 the strategy for risk management was revised to reflect the widening role in developing sound systems of control and maintaining risk management processes particularly within partnership arrangements. This strategy was published in the 2006-09 Medium Term Plan.

The Chief Internal Auditor's scored opinion for risk management was 'Substantial', confirming that during 2005-06 there were arrangements in place to ensure the identification, prioritisation and assignment of high priority risks and that appropriate steps have been taken to mitigate them.

Management Arrangements

The Director of Law and Governance has management responsibility for overseeing the implementation and monitoring the operation of the Code of Corporate Governance and risk management arrangements.

3. Statement On The Financial Year 2005-06

We are satisfied that, except for the matters identified below which were addressed during the year, a sound system of corporate governance and internal control was in place throughout the financial year and is ongoing. This conclusion has been reached on the basis of a report from the Director of Finance which in turn was informed by:-

- Assurance statements provided by Managing Directors, based on their assessment of operational controls within their services.
- An assessment of internal financial control;
- The work of Internal Audit and the Chief Internal Auditor's independent annual opinion on corporate governance and risk management arrangements;
- The work of the external auditors and comments in their annual Audit letter and other reports;

The following matters were addressed during the year 2005-06:

- A revised Code of Corporate Governance was approved.

Statement of Internal Control

- New processes and procedures for the use of consultants have been introduced.
- Improved monitoring of Health and Safety incidents.
- Effective Asset Management principles have been introduced.
- Business continuity planning has been successfully tested.
- Improved personnel management information is available.
- Recommendations of the Bichard report have been implemented.
- Development of a number of Project / Service Boards.
- Continued consolidation of performance and risk management.
- Continued good progress on the management of the capital programme.

4. Developments in 2006-07

In their individual Statements, Managing Directors and Directors of Services in the Chief Executive's Department have identified improvements in operational control to be undertaken in 2006-07 and we are satisfied that these are based on sound systems of identification. In addition, the following cross-cutting developments will be carried out in 2006-07:

- Improved integrated reporting of finance, activity and personnel information.
- Development of an Enterprise Architecture methodology to ensure alignment of ICT outcomes with service priorities.
- Improved resilience of the IT environment.
- An equal pay audit for Kent Scheme staff will begin.
- Increased management of the risk of Legionella.

We will take steps over the coming year to address the above matters and will report on their implementation and operation as part of the assurance statement for 2006-07. We are satisfied that these steps will address any need for improvements that have been identified.

By Order of the Council

Leader

Chief Executive

On behalf of Kent County Council



Accounting Policies

General

The Accounts of Kent County Council have been compiled in accordance with the 2005 Code of Practice on Local Authority Accounting, Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) relevant to local authorities.

Basis on which creditors and debtors at year end are included in the Accounts

Kent County Council's Accounts are kept on an accruals basis, in accordance with the Code of Practice.

In order to account for expenditure and income attributable to the financial year in respect of goods and services received or rendered, amounts are included in the Accounts based on actual invoices received or raised after the end of the financial year. Where actual amounts are not known estimates are included based on a professional assessment of the value of goods and services received or rendered, calculated using best available information regarding the prices or rates applicable.

Provisions and Reserves

It is the policy of Kent County Council to make provisions in the Accounts where there is a contractual obligation to make a payment but the amount or timing of the payment is uncertain. The most significant provision made is for insurance claims and details of the Insurance Fund can be found on page 34 of the Accounts. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

Kent County Council holds general fund reserves as a consequence of income exceeding expenditure, budgeted contributions to reserves or where money has been earmarked for a specific purpose. These reserves are set at a level appropriate to the size of the budget and the level of assessed risk.

In the Summary Revenue Account expenditure met from reserves is included in the cost of services. Transfers to and from reserves are shown after calculating net operating expenditure. Details of the Authority's reserves are shown in the notes to the Accounts on pages 38-45.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. In this context enhancement means work that has substantially increased the life, value or use of the assets. Work that is properly classified as capital expenditure but does not result in an increase in value is written off in the year to the Fixed Asset Restatement Account. Similarly, work that has not been completed by the end of the year is carried forward as "work in progress". Assets acquired under finance leases that have been capitalised are included in the Balance Sheet together with the outstanding obligation to make future rental payments.

Valuation of Fixed

The authority has a policy in place to revalue 20% of its assets each year. All assets will therefore be revalued at least every five years

Assets are valued as follows: -

- Non operational property is valued on the basis of open market value and is included in the balance sheet at the lower of net current replacement cost or net realisable value.

- Operational property is included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.

Accounting Policies

- Vehicles, plant and equipment are valued at historical cost.
- Infrastructure, community assets and work in progress are valued at cost.

Depreciation

Depreciation is calculated on a straight-line basis over each asset's useful economic life.

The periods over which assets are depreciated are as follows:

Land	- nil
Buildings	- 60 years
Vehicles, plant and equipment	- 3-15 years
Temporary classrooms	- 20-25 years
Roads & other Highways infrastructure	- 20 years
Community assets	- nil
Work in progress	- nil
Surplus & non operational	- nil

Capital charges

The capital charges made to service revenue accounts, central support services and trading accounts equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is included in the Balance Sheet. The interest rate used is prescribed by CIPFA each year and for 2005-06 was 3.5% for assets carried at current value and 4.95% for assets carried at historical cost. This is applied to all fixed assets included in the Balance Sheet other than non-operational assets, community assets or work in progress, where no charge is made.

Capital receipts

Income from the disposal of fixed assets is either credited to the Usable Capital Receipts Account or the Capital Financing Account. Conditional receipts are not included in these figures until it is prudent to do so.

Repurchase of

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the summary revenue account in the period during which the repurchase or early settlement is made. Where loans are restructured, the premium is written off to revenue over the period of the new loan.

Support service and central department costs

The cost of support services and central department costs are allocated to services on the following basis in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP):

- Office accommodation - on the basis of floor area used by various services
- All other support costs - on the basis of time spent in the delivery of services to other departments or in with other measures which reflect the level of service provided.

Stocks and stores

Stock is valued at the lower of cost or net realisable value. Spending on consumable items is accounted for in the year of purchase.

Accounting Policies

Deferred charges

Deferred charges represent expenditure which may be properly capitalised, but does not result in the creation of tangible assets. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account.

Intangible Assets

Assets that do not result in the creation of a tangible asset, but are identifiable and are controlled by the Council e.g. software licences are classified as intangible assets. This expenditure is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the life of the asset. For software licences this is normally between 3 to 5 years.

Accounting for Value Added Tax

VAT is separately accounted for in accordance with SSAP 5 and is not included as income or expenditure of the County Council, except where it is not recoverable, e.g. on the purchase of motor cars where there is an element of private use by staff.

Government grants

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or, in the case of capital grants, to a Government Grants-deferred Account or the Capital Financing Account. If a specific revenue grant is not spent within the year it is allocated, and is not available for use on services other than those which it was intended for, then it is normally treated as a receipt in advance. If it is available for use on other services and not time limited, it is treated as an underspend. Amounts are released from the Government Grants-deferred Account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate over the useful economic life of the asset.

Leasing

Finance and operating lease rentals paid during the year and an estimate of the undischarged operating lease obligations are shown as Note 10 to the Summary Revenue Account and within Note 1 to the Balance Sheet. Rental payments under finance leases are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease. Operating lease rentals are charged as revenue expenditure in the year to which the rental relates.

Pensions

The Council participates in two different pension schemes. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- Teachers

This is an unfunded scheme administered by the Department for Education and Skills. The pension cost charged to the Accounts is the contribution set by the Department on the basis of a notional fund.

- Other employees

Subject to certain qualifying criteria, non-teaching employees of the Council are eligible to join the Local Government Pension Scheme.

Accounting Policies

The pension costs that are charged to the Council's Accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for employees.

Investments

The investments in the County Council's accounts are shown at cost. The policy on investments relating to the Pension Fund can be found on page 51.

PFI Accounting Policy

The County Council has several long term PFI contracts including Westview and Westbrook which are two recuperative care facilities and a contract for the refurbishment and redevelopment of six schools.

The transactions relating to PFI contracts have been accounted for in accordance with the requirements of 'Application Note F - Private Finance Initiative and similar contracts as an amendment to FRS5 (Reporting the substance of transactions)'.

Summary Revenue Account

This summary shows the total gross expenditure for 2005-06. Net expenditure is arrived at by deducting income and grant.

Service	Notes	Year ended 31 March 2006			2004-2005
		Gross Expenditure £'000	Income and Grant £'000	Net Expenditure £'000	Net Expenditure £'000
Regulatory Services and Emergency Planning		5,804	2,397	3,407	1,871
Court Services		2,136	339	1,797	4,475
Arts & Libraries		31,101	2,946	28,155	24,679
Waste Management		54,034	10,791	43,243	39,073
Environmental, Planning and Other Services		53,947	29,915	24,032	18,527
Education Services		1,153,056	339,137	813,919	747,709
Highways, Roads and Transport Services		142,245	10,324	131,921	122,087
Social Services		526,032	204,225	321,807	299,690
Corporate and Democratic Core		36,356	11,508	24,848	22,188
Non Distributed Costs		16,221		16,221	15,123
Net Cost of Services	1	2,020,932	611,582	1,409,350	1,295,422
Precepts and Levies	2			549	1,000
Net Surplus on trading accounts	3			-3,627	-3,679
Transfer from asset management revenue account	4			-33,604	-29,732
Loss on the repurchase of borrowing				0	0
Contribution by Medway to Loan Debt-Principal & Interest				-5,897	-6,319
Interest and Investment Income				-10,178	-9,384
Pensions interest cost and expected return on pensions assets	6			21,340	9,797
Net Operating Expenditure				1,377,933	1,257,105
Transfer to insurance reserve				2,445	4,682
Contributions to/from(-) earmarked reserves					
- School balances				7,834	18,898
- Other reserves				11,002	14,825
Capital Expenditure Financed from Revenue				8,357	14,597
Reconciling amount for provision for loan repayment	5			-63,071	-54,702
Government Grants Deferred	5			14,954	13,629
Contribution to/from(-) pensions reserve	6			-12,047	-4,450
Amounts to be met from government grants and local taxpayers				1,347,407	1,264,584
This was financed by:					
General Government Grants				-478,053	-500,669
Non-Domestic Rates Redistribution				-410,515	-337,406
Demand on Collection Fund				-456,339	-435,153
Net General Fund Surplus(-)/ Deficit				2,500	-8,644
Balance on General Fund Brought Forward				-28,335	-19,691
Balance on General Fund Carried Forward				-25,835	-28,335

Notes to the Summary Revenue Account

1. Net Cost of Services

The figures included in the Accounts reflect expenditure and income on services rather than departmental or Portfolio structures. This is in accordance with CIPFA's Best Value Accounting Code of Practice (BVACOP)

2. Precepts

The following precepts were paid:

	2005-06	2004-05
	£000's	£000's
Environment Agency	323	782
Kent and Essex Sea Fisheries Committee	201	193
Sussex Sea Fisheries Committee	25	25
	<hr/>	<hr/>
	549	1,000

Notes to the Summary Revenue Account

3. Trading Operations

The results of the various trading operations for 2005-06 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-)	Surplus/ Deficit(-)
	£'000	£'000	2005-06 £'000	2004-05 £'000
Kent County Supplies	38,367	37,416	951	1,203
Provision of educational and office supplies (from warehouse stock and by direct delivery)				
County Furniture	1,072	1,051	21	93
Furniture manufacturing, including on-site projects				
Technical Services	1,311	1,252	59	13
Maintenance of audio-visual, computer, portable, fire fighting, gymnastic and general electrical equipment				
County Print	2,935	2,841	94	-3
Literature design and general printing				
Transport Services	16,055	14,956	1,099	857
Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs				
Passenger Services	3,088	3,064	24	39
Provider of bus services, including school transport				
Transport Integration	7,310	7,153	157	123
Specifying and control of transport for Education and Social Services				
LASER	129,743	129,036	707	817
Energy purchasing consortium				
Kent Top Temps	0	0	0	149
Provision of temporary office and care staff				
Kent Cleaning and Contracting Services	60	61	-1	20
Cleaning services				
Landscape Services	9,956	9,440	516	368
Grounds maintenance including constructing work				

Total surplus

209,897

206,270

3,627

3,679

Notes to the Summary Revenue Account

Kent Cleaning and Contracting Services has been closed down in 2005-06 and the loss reflects the impact of this process.

Kent Top Temps Ltd became operational as a wholly owned subsidiary from 1 April 2005 to take over the business previously undertaken by Kent Top Temps as part of Commercial Services. See page 22, note 14.

4. Asset Management Revenue Account

This account allows the County Council to offset the impact of internal capital charges in arriving at the total level of expenditure to be financed from government grants and local taxation. This ensures that internal capital charges have a neutral effect on the total amount to be raised from local taxation.

The capital charges made to service revenue accounts, central support services and trading accounts, equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is included in the Balance Sheet at 31 March 2006. The interest rate used is prescribed by CIPFA each year and for 2005-06 was 3.5% for assets carried at current value, and 4.95% for assets carried at historical cost. This is applied to all fixed assets included in the Balance Sheet other than non-operational assets, community assets and work in progress, where no charge is made.

	2005-06	2004-05
	£'000	£'000
Income		
Capital charges	-149,457	-138,443
Deferred grants released	-14,954	-13,629
Reversal of amortisation of intangible fixed assets	-2,883	-2,611
Expenditure		
Provision for depreciation	77,964	72,340
External interest charges	52,843	50,000
Amortisation of intangible fixed assets	2,883	2,611
Surplus to Summary Revenue Account (representing the difference between notional and actual interest charges)	-33,604	-29,732

5. Reconciling Amount for Provision for Loan Repayments

Kent County Council is required by statute to set aside a minimum revenue provision (MRP) for the redemption of external debt. The method for calculating the provision is defined by statute, being 4% of the outstanding debt used to finance capital expenditure at the end of 2004-05 and for 2005-06 the minimum amount is £32.8m. The provision has been charged to the service revenue accounts as a depreciation charge for fixed assets relating to that service or as the writing off of a deferred charge or amortisation of intangible asset. Further provision is made in respect of obligations relating to finance leases and in 2005-06 this amounted to £0.4m. An adjustment is made to the Summary Revenue Account so that the correct amount is reflected in the costs to be met from Government grant and local taxation.

	2005-06	2004-05
	£000's	£000's
MRP	33,143	30,617
Amount charged to revenue for depreciation	-77,964	-72,340

Deferred Charges and amortisation of intangible assets charged to services	-18,250	-12,979
Excess provision credited to Revenue Account	-63,071	-54,702

Notes to the Summary Revenue Account

In addition a transfer is made from the Capital Financing Account, equal to the credit on the Asset Management Revenue Account, for the deferred government grants to avoid an impact on the revenue account of £15m (£13.6m 2004-05). See Note 4 above.

6. Pension Costs

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when they are paid as pensions. However, the charge we are required to make against the council tax is based on the cash payable in the year, so the real cost is reversed out of the Summary Revenue Account after Net Operating Expenditure.

Under the requirements of FRS17, the council is required to show the movement in the net pensions deficit for the year. This can be analysed as follows:

	Local Government Pension Scheme	
	2005-06	2004-05
	£000's	£000's
Net Cost of Services:		
• Current service cost	-51,000	-42,525
• Past service costs	-2,350	-3,341
Net Operating Expenditure:		
• Interest cost	-77,360	-59,890
• Expected return on assets in the scheme	56,020	50,093
Actual amount charged against council tax for pensions in that year:		
• Employer's contributions payable to scheme	62,643	51,213
Amounts to be met from Government Grants and Local Taxation:		
• Movement on pensions reserve	-12,047	-4,450

Commutation

Commutation is where a member gives up part of his/her pension in exchange for an immediate lump sum pension.

Regulations on 30 March 2006 give retiring LGPS members in England and Wales the option to increase the

amount of tax-free cash taken from the scheme at retirement to the new maximum permissible under the Finance Act 2004, of 25% of the value of benefits. This almost doubles the amount of lump sum available. This part of the regulations became effective on 6 April 2006.

Notes to the Summary Revenue Account

The FRS 17 figures provided by the actuary do not include the changes in Regulations. We believe that for 2005-06 accounts that it is prudent not to anticipate any potential savings. This is in light of the considerable uncertainty around the take up of commutation, the assumptions that would have to be made and the materiality of the effects of these changes.

Teachers

In 2005-06 Kent County Council paid £52.4m (£50.1m in 2004-05), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 13.5% of teachers' pensionable pay. In addition, Kent County Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2005-06 these amounted to £4.4m (£4.3m in 2004-05), representing 1.1% (1.2% in 2004-05) of pensionable pay.

Other Employees

Other employees of the County Council may participate in the Kent County Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit statutory scheme.

In 2005-06 Kent County Council paid an employer's contribution of £62.6m (£51.2m in 2004-05) into the Pension Fund, representing 20.4% (19.2% in 2004-05) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2005-06 was based on the review carried out as at 31 March 2004. Under Pension Fund Regulations the rates are set to meet 100% of the overall liabilities of the Fund.

In addition Kent County Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. However, Medway Council is required to contribute towards the liabilities incurred prior to reorganisation on 1 April 1998. Kent County Council is required to disclose the capital cost of the discretionary pension payments it has made using a formula recommended by CIPFA. The capital value of new discretionary increases in pension payments (i.e. discretionary added years) agreed by the council in 2005-06 is £1.250m (£1.798m in 2004-05). The capital value of payments agreed in earlier years is £56.9m (£54.0m in 2004-05).

An actuarial valuation was carried out of the fund as at 31 March 2004. The actuary has estimated that based on current contribution rates the deficiency on the Pension Fund at 31 March 2004 would be liquidated over a period of 20 years.

Other Notes

7. Publicity

Publicity is defined by the Local Government Act 1986 as any communication, in whatever form, addressed to the public at large or to a section of the public. However, a number of areas are exempt from inclusion in the account e.g. statutory publications. Kent County Council's expenditure on publicity was:

	2005-06	2004-05
	£'000	£'000
Recruitment advertising	3,149	3,305
Other advertising	503	609
Other publicity	2,664	2,530

6,316

6,444

8. Members Allowances

Members allowances paid in 2005-06 totalled £1,757,375 (£1,707,628 in 2004-05).

9. Local Authority (Goods and Services) Act 1970

Under the Local Authority (Goods and Services) Act the Council provides goods, materials and professional services to other public bodies, including other local authorities, health bodies, charities and voluntary organisations.

Income from the provision of professional services amounted to £41.7m (£28.6m in 2004-05). This increase is largely due to increased income from Dartford, Gravesham and Swanley PCT and S31 Agreements. Supplies of goods and services totalled £24.3m (£22.2m in 2004-05). External business represented 45.3% (42.7% 2004-05) of the turnover of Commercial Services department.

10. Leases

Kent County Council has made use of leases to acquire vehicles and equipment. Lease rentals paid during the year in respect of current operating leases in respect of vehicle plant and equipment amounted to £6.845m and in respect of land and buildings amounted to £3.830m. A further £0.786m was paid in respect of finance leases.

11. Related Party Transactions

During the financial year 2005-06 there were no material transactions between Kent County Council and its Members and Chief Officers, other than payment of salaries and Members' allowances.

Related party transactions with central government departments and other bodies are listed below:-

- Kent County Council received a number of general and specific grants from central government totalling £1.5m.
- Precepts amounting to £0.5m were paid to the Environment Agency, Kent and Essex Sea Fisheries and Sussex Sea Fisheries Committee.
- Payments to other local authorities and health bodies, excluding precepts, totalled £10.0m.
- Receipts from other local authorities and health bodies totalled £45.2m.
- In addition, payments of Employers' Pension Contributions were made to the Pension Fund in respect of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The details of these payments are detailed in notes to the Summary Revenue Account, note 6 on pages 18 and 19 of these Accounts.

Notes to the Summary Revenue Account

12. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2005 to 31 March 2006

This note shows the number of employees whose total remuneration in the financial year 2005-06, excluding pension contributions, was £50,000 or more.

Remuneration includes:-

- a) all sums paid to or receivable by an employee including non-taxable termination payments, redundancy payments and pay in lieu of notice
- b) expense allowances chargeable to tax i.e. the profit element of car allowances
- c) the money value of benefits such as car loans, leased cars, travel cards, health insurance and mobile phones.

Remuneration (£)	Total number of employees	
	31 March 2006	31 March 2005
50,000 - 59,999	338	207
60,000 - 69,999	89	58
70,000 - 79,999	48	36
80,000 - 89,999	29	23
90,000 - 99,999	19	11
100,000 - 109,999	4	2
110,000 - 119,999	2	1
120,000 - 129,999	2	0
130,000 - 139,999	2	1
140,000 - 149,999	0	1
150,000 - 159,999	0	2
160,000 - 169,999	1	0
170,000 - 179,999	1	0
180,000 - 189,999	1	0
190,000 - 199,999	0	0
200,000 - 209,999	0	0
210,000 - 219,999	0	1
220,000 - 229,999	1	0
Total	537	343

Notes to the Summary Revenue Account

13. Audit Costs

In 2005-06 the following fees were paid relating to external audit and inspection :

	2005-06 £'000	2004-05 £'000
Fees payable to the for external audit services carried out by the appointed auditor	371	364
Fees payable to the Audit Commission in respect of statutory inspection	1	1
Fees payable to the appointed auditor for the certification of grant claims and returns	98	118
Fees payable in respect of other services provided by the appointed auditor		112
	470	595

14. Subsidiary Undertakings

On the 27th September 2004 Kent Top Temps LTD (KTT) became a wholly owned subsidiary of Kent County Council. It commenced trading on the 4th April 2005. KTT is an employment agency providing temporary and permanent solutions across a variety of disciplines within the public and private sectors in Kent and the South East. It is a member of the Recruitment and Employment Confederation. KTT had a turnover in 2005-06 of £3.3m with a net profit of £0.16m before tax. This does not have a material impact on Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2005-06.

15. Health Act 1999 - Pooled Budget

Under Section 31 of the above Act, the authority entered into S31 agreements with Primary Care Trusts (PCT) for Kent Drug and Alcohol Action Team (KDAAT) which provides advice and information for Adults, and Registered Nursing Care Contribution (RNCC) in Care Homes. Additionally in 2005-06 Section 31 agreements became operational in respect of the Westbrook / Westview PFI and the Integrated Community Equipment Store (ICES).

KDAAT	£000's	RNCC	£000's
<u>Gross Funding</u>		<u>Gross Funding</u>	
Swanley		PCT	486
PCT	11,741	Canterbury & Coastal PCT	834
		East Kent Coastal PCT	1,195
		Shepway PCT	538
		Dartford, Gravesham & Swanley PCT	1,399
		Maidstone Weald PCT	949
		South West Kent PCT	829
		Swale PCT	187
	11,741		6,417

Expenditure	11,741	Expenditure	6,417
	<u>0</u>		<u>0</u>

Notes to the Summary Revenue Account

Westbrook/West View PFI	£000's	ICES	£000's
<u>Gross Funding</u>		<u>Gross Funding</u>	
Ashford PCT	1,192	PCT	36
Coastal PCT	1,063	East Kent Coastal PCT	82
KCC - Social Services	2,578	Dartford, Gravesham & Swanley PCT	11
PFI Credits	2,257	Maidstone Weald PCT	51
		South West Kent PCT	29
		Swale PCT	10
		Medway PCT	23
		Medway Council	36
		KCC - Social Services	<u>515</u>
	<u>7,090</u>		793
Expenditure	<u>7,090</u>	Expenditure	<u>793</u>
	0		0

16. Long Term

In 2006-07 the authority is committed to making payments of £2.7m under a PFI contract with Integrated Care Services (ICS) for the maintenance and operation of Westview and Victoria House recuperative care facilities. The actual amount will depend on the performance of ICS in delivering the services under the contract (£2.6m was paid in 2005-06). The contract will run until April 2033.

17. Landfill Allowance Trading Scheme

No trading of 2005-06 landfill allowances has taken place. The weighted average value at which 2005-06 vintage allowances have traded during the financial year has been calculated as £20.20 per tonne. Estimated usage is 397,320 tonnes which is 16,465 tonnes less than our allowance for 2005-06.

County Fund Balance Sheet

The County Fund Balance Sheet shows the financial position of Kent County Council as a whole at the end of the year. Balances on all accounts are brought together and items that reflect internal transactions are eliminated.

	Notes	31 March 2006		31 March 2005	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible Fixed Assets	2		5,935		7,699
Tangible Fixed Assets					
Operational assets					
Land and buildings		1,239,218		1,198,926	
Vehicles, plant and equipment		17,511		10,468	
Roads and other highways infrastructure		518,182		521,570	
Community assets		6,664		4,956	
Non-operational assets					
Investment Property		1,955		1,955	
Assets under construction		131,573		72,730	
Surplus and non-operational property		74,349		63,873	
Total Tangible Assets	1		<u>1,989,452</u>		<u>1,874,478</u>
Total fixed assets			<u>1,995,387</u>		<u>1,882,177</u>
Long-term investments			66,000		
Long-term debtors	3		<u>62,002</u>		<u>65,234</u>
Total long-term assets			<u>2,123,389</u>		<u>1,947,411</u>
Current assets					
Stocks and work in progress		15,167		5,382	
Debtors	3	158,571		154,056	
Investments		153,234		239,326	
Cash and bank balances		<u>102,615</u>		<u>85,702</u>	
Total current assets			<u>429,587</u>		<u>484,466</u>
Current liabilities					
Temporary borrowing		-40		-8,168	
Creditors	4	-237,452		-229,453	
Cash balances overdrawn		<u>-101,924</u>		<u>-79,956</u>	
			<u>-339,416</u>		<u>-317,577</u>
Total assets less current liabilities (Net Assets Employed)	5		<u>2,213,560</u>		<u>2,114,300</u>
Long-term liabilities					
Long-term borrowing	6	-882,523		-822,521	
Deferred liabilities		-1,523		-1,858	
Provisions	7	-12,855		-14,457	
Liability related to defined benefit pension schemes	8	-657,726		-624,636	
			<u>-1,554,627</u>		<u>-1,463,472</u>

Total assets less liabilities

658,933

650,828

County Fund Balance Sheet

Fixed asset restatement account	9	-498,793	-522,801
Capital financing account	9	-464,395	-397,950
Government grant deferred account		-119,267	-134,221
Deferred Premiums		21,940	22,890
Deferred credit - Medway Council		-57,926	-60,339
Earmarked capital reserve	9	-24,884	-27,955
Usable capital receipt reserve	9	-7,473	-4,278
Pensions reserve	9	657,726	624,636
Earmarked reserves	9	-74,094	-59,875
General Fund balance	9	-25,835	-28,335
Schools reserves	9	-65,626	-60,698
Surplus on trading accounts	10	-306	-1,902
Total net worth		<u>-658,933</u>	<u>-650,828</u>

Notes to the Accounts

1. Movement on Fixed Assets

	Land and buildings	Vehicles, plant and equipment	Roads and other Highways Infrastructure	Community assets	Work in progress	Surplus, non- operational and investment property	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross Book Value as at 31 March 2005	1,326,834	27,462	803,603	4,956	72,730	65,828	2,301,413
Accumulated depreciation	-127,908	-16,994	-282,033				-426,935
Net book value as at 31st March 2005	1,198,926	10,468	521,570	4,956	72,730	65,828	1,874,478
Movement in 2005-06							
Additions	83,553	8,475	31,671	1,708	92,489	3,066	220,962
Disposals (net)	-29,555	-12				-22,230	-51,797
Revaluations / Adjustments	32,711	2,850	5,121		-31,070	16,737	26,349
Depreciation	-33,018	-4,270	-40,180				-77,468
Impairments	-496						-496
Net transfer from operational to non-operational	-12,903					12,903	0
Trans from WIP to revenue					-2,576		-2,576
Net book value as at 31 March 2006	1,239,218	17,511	518,182	6,664	131,573	76,304	1,989,452

Notes to the Accounts

Valuations of Fixed Assets carried at current value

The following statement shows the progress of Kent County Council's rolling programme for the revaluation of fixed assets. The valuations were carried out by Nigel Godden MRICS of Mouchel Parkman and Nicholas Coote MRICS of District Valuer Services. Victoria Kellett MRICS of Jones Lang Lasalle carried out the valuation of Kings Hill. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings	Investment Properties	Total
	£'000	£'000	£'000
Valued at current value in:			
2004/05	1,275,765	0	1,275,765
2005/06	550,930	0	550,930

Basis of valuation

All valuations of land and buildings were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. In 2004-05 approximately 20% of the properties were inspected, the remainder being valued on a beacon basis of valuation. In 2005-06 all nursery, primary, adult education centres, youth and community establishments, all playing fields and libraries have been valued. For each operational asset an Existing Use Value (EUV) was provided. In the case of specialised properties, that is, those properties which are rarely, if ever, sold for existing use on the open market, the valuation basis used is Depreciated Replacement Cost (DRC).

The sources of information and assumptions made in producing the various valuations are set out in a valuation certificate and report.

Assets held under finance leases

Included within the totals for vehicles, plant and equipment are assets that have been acquired under finance leases. Values are as follows:

	At 31 March 2006 £'000	At 31 March 2005 £'000
Gross Book Value	8,157	7,694
Accumulated Depreciation	-6,634	-5,814
Value at 31 March 2006	1,523	1,880

Outstanding commitments in relation to finance leases at 31 March are as follows:

	2005-06 £'000	2004-05 £'000
Less than one year	786	811
Between 2-5 years	1,946	1,636
	2,732	2,447

Aggregate finance charges allocated for the period up to the 31 March 2006 are £0.4m in respect of finance leases.

Notes to the Accounts

The Council was committed at 31 March 2005 to making payments of £10.625m under operating leases in 2005/06, comprising the following elements:

	Land and Buildings	Vehicle Plant and Equipment
	£000's	£000's
Leases expiring in 2005/06	260	1650
Leases expiring between 2006/07 and 2010/2011	1,642	1,666
Leases expiring after 2010/2011	1,928	3,529
	<u>3,830</u>	<u>6,845</u>

Capital Expenditure and Financing

Capital expenditure was financed as follows:

	2005-06 £000's	2004-05 £000's
Opening Capital financing requirement	827,675	763,878
Capital investment		
Fixed Assets	220,962	179,567
Intangibles assets	1,119	3,829
Deferred charges	15,368	10,236
Increase in finance leases	463	1,820
Long Term debtor		200
	<u>1,065,587</u>	<u>959,530</u>
Sources of finance		
Capital receipts	22,889	20,280
Government grants and other contributions	87,866	66,458
Revenue contributions (including MRP)	41,501	45,117
	<u>913,331</u>	<u>827,675</u>
Closing capital financing Requirement	913,331	827,675
Movement	85,656	63,797
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	55,324	57,142
Increase in underlying need to borrow (unsupported by Government financial assistance)	30,332	6,655

Increase/(decrease) in Capital Financing Requirement

85,656

63,797

Notes to the Accounts

Capital expenditure 2005-06

The main items of capital expenditure during the year were:

Highways Schemes	£'000	
Bridge Strengthening/Maintenance Schemes	23,009	
A228 Leybourne and West Malling Bypass	16,788	
Fastrack	9,243	
East Kent Access Road	6,080	
Integrated Transport Schemes	5,286	
Fastrack Wider Area Network	3,246	
Kent Highway Services Accommodation	2,092	
Shorne Country Park	1,617	
Street Lighting Maintenance	<u>1,515</u>	68,876
Education Schemes		
Modernisation Programme, improving and upgrading school buildings	15,339	
Special Schools Review	6,720	
Building Maintenance (Condition) Programme	5,657	
Emergency Building Maintenance	4,983	
Vocational Education Programme	4,194	
Homewood School and 6th Form Centre	3,775	
Maintained Nursery Programme	3,611	
New Opportunities Fund - Physical Education and Sport	3,579	
Children's Centres	2,944	
The Community College, Whitstable	2,744	
Walmer School	2,678	
Mascalls School	2,599	
Hillview School for Girls	2,457	
Adult Education at Canterbury High School	2,456	
The Charles Dickens School	2,244	
Schools Access Initiative	2,217	
Dartford Campus	2,146	
Schools PFI	2,141	
Capital Projects Team	1,871	
Maplesden Noakes School	1,752	
Weald of Kent Grammar	1,455	
Site Acquisitions	1,304	
Iwade Community Primary School	1,157	
Mobile Moves	1,141	
Tunbridge Wells Grammar School for Boys	1,062	
Hextable Dance	<u>1,035</u>	83,261

Notes to the Accounts

Social Services Schemes

Improving Information Management	2,589	
The Croft	1,981	
Broadmeadow	<u>1,456</u>	
		6,026

Corporate Services

Electronic Delivery Programme		6,441
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Commercial Services

Kent Fleet	2,992	
	<u>167,596</u>	
Capital Devolved to Schools		31,502
Projects less than £1m		38,351
Total Capital Expenditure	<u><u>237,449</u></u>	

Notes to the Accounts

Future capital expenditure commitments

At 31 March 2006 contractually committed capital expenditure to be incurred in 2006-07 and later years includes the following major projects:

	£'000
Highway Schemes	
East Kent Access Road	9,360
A228 Leybourne and West Malling Bypass	6,038
Education Schemes	
Ifield School	4,885
Dartford Campus	3,791
St Nicholas School	3,502
Furness SEN	2,978
Harbour SEN	2,710
The Abbey School	1,377
Oak Tree Primary School	1,204
Woodlands School	1,012
Christchurch School	699
Mascalls School	689
Milton Court	680
Swadelands School	611
Social Services	
Social Services replacement systems programme (SRP)	3,000
Broadmeadow	4,700
The Croft	900
Total Commitments	<u>48,136</u>

Notes to the Accounts

Analysis of major operational asset holdings

	At 31 March 2006	At 31 March 2005
Schools (excludes voluntary aided schools)	510	517
Community assets including libraries, adult education, discovery and youth centres	121	121
Magistrates Courts	0	10
Smallholdings	8	12
Homes and day centres for the elderly	23	25
Facilities for children and their families	29	27
Facilities for people with disabilities	12	13
Recreation sites	29	29
Household Waste sites	18	18
County roads	5272 miles	5272 miles
County offices	10	10

2. Movement in intangible assets

	Purchased Software licences £000s	Total £000s
Balance at 1 April 2005	7,699	7,699
Expenditure in year	1,119	1,119
Written off to revenue in year	-2,883	-2,883
Balance at 31 March 2006	5,935	5,935

Software licences were purchased for E Government, Social Services replacement systems and various Commercial Services replacement systems. The cost is being written off over the life of the licences; between 3 and 5 years.

Notes to the Accounts

3. Amounts owed to the Council by debtors

	At 31 March 2006 £000's	At 31 March 2005 £000's
Long Term debtors:		
Housing Act advances (mortgages)	19	23
Medway Council (transferred debtor)	57,926	60,339
Public bodies	3,601	4,096
Other	456	776
	62,002	65,234
Other debtors:		
Staff advances	129	139
Government Departments	52,895	61,680
Payments in advance	17,837	12,049
General debtors	87,710	80,188
	158,571	154,056

Capital debtors amounting to £20.4m are included in the Accounts at 31 March 2006 (£18.8m in 2004-05). Capital debtors relate to grants towards capital expenditure incurred in 2005-06 which had not been received by 31 March 2006.

4. Amounts owed by the Council to creditors

	At 31 March 2006 £'000	At 31 March 2005 £'000
Kent and Essex Sea Fisheries	644	471
Receipts in advance	42,798	41,324
General creditors	169,043	174,613
Other local authorities	4,606	3,239
Deferred capital receipts	19	23
Government departments	20,342	9,783
	237,452	229,453

Capital creditors amounting to £37.9m are included in the Accounts at 31 March 2006 (£32.8m in 2004-05).

5. Net Assets Employed

Net assets analysed between Kent County Council and trading operations.

	At 31 March 2006 £'000	At 31 March 2005 £'000
General Fund	2,207,754	2,108,729

Trading Accounts	5,806	5,571
	2,213,560	2,114,300

Notes to the Accounts

6. Long term borrowing

The external debt of Kent County Council repayable in more than 1 year is analysed as follows:

	At 31 March 2006 £'000	At 31 March 2005 £'000
Public Works Loan Board	641,823	667,521
Money market loans	240,700	155,000
European Investment Bank	0	0
	882,523	822,521

The loans above are repayable within the following periods:

	£'000	£'000
Between 1-5 years	139	149
Between 5-10 years	72,643	79,800
Between 10-15 years	111,003	136,003
More than 15 years	698,738	606,569
	882,523	822,521

7. Provisions

The Council has made a provision for insurance claims. The Council's Insurance arrangements involve both internal and external cover. For internal cover an Insurance fund has been established to provide cover for property, combined liability and motor insurance claims. The fund comprises a Provision for all claims notified to the Council at 31 March each year and a Reserve for claims not yet reported but likely to have been incurred.

	Balance at 1 April 05 £'000	Movement in year £'000	Balance at 31 March 06 £'000
Insurance Provision	-10,079	1,039	-9,040
Pension Fund Provision for ex DSO staff*	-772	156	-616
Other Provisions	-3,606	407	-3,199
	-14,457	1,602	-12,855

*The current prediction is that this fund will be exhausted during 2008-09. Our Medium Term Financial Plan for 2007-10 will acknowledge this and will build in up to £200k per annum to fund the ongoing commitments, which will reduce over time.

8. Liability related to defined benefit pensions schemes

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	Local Government Pension Scheme	
	2005-06	2004-05
	£000's	£000's
Estimated liabilities in scheme	-1,701,220	-1,425,100
Estimated assets in scheme	1,043,494	800,464
Net asset (+)/liability(-)	-657,726	-624,636

This liability reflects the underlying commitment that the authority has in the long - term to pay retirement benefits. The total liability of £658m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, there are statutory arrangements for funding the deficit to ensure that the financial position of the authority remains healthy.

The actuary has calculated the value of assets held by the Pension Fund that are attributable to Kent County Council at 31 March 2006. In carrying out this valuation they have made the following assumptions:

Assumptions as at	31 March 2006 % per annum	31 March 2005 % per annum	31 March 2004 % per annum
Price increases	3.1%	2.90%	2.90%
Salary increases	4.6%	4.40%	4.40%
Pension increases	3.1%	2.90%	2.90%
Discount rate	4.9%	5.40%	6.50%

The value of the Fund at 31 March and the expected return on the assets of the Fund is shown in the following

Assets (Whole Fund)	Long Term Rate of Return Expected	Fund Value at 31 March 2006	Long Term Rate of Return Expected	Fund Value at 31 March 2005
	% per annum	£'000	% per annum	£'000
Equities	7.40%	1,636,500	7.70%	1,217,500
Bonds	4.60%	289,100	4.80%	231,800
Property	5.50%	208,900	5.70%	179,200
Cash	4.60%	<u>178,100</u>	4.80%	<u>134,600</u>
Total		2,312,600		1,763,100

9. Reserves

Details of movements on reserves are shown in notes to the Statement of Total Movements in Reserves on pages 38 to 45.

10. Surplus on Trading Accounts

	Balance at 1 April 05 £'000	Movement in the year £'000	Balance at 31 March 06 £'000
Commercial Services	-1,823	1,596	-227
Personnel and Development	-79	0	-79
	<u>-1,902</u>	<u>1,596</u>	<u>-306</u>

The Commercial Services figure differs from that shown in the Summary Revenue Account as this note does not reflect the adjustments that have to be made in line with BVACOP.

Other Notes

11. Pension Fund

Once credited to the Pension Fund, monies may only be used to provide for the statutory determined pension and other payments attributable to staff covered by the Fund. The assets and liabilities of the Pension Fund are shown separately from those of Kent County Council, although the legal position is that they are all in the ownership of Kent County Council as the administering authority. Any actuarial surplus or deficit is apportioned to the constituent member bodies of the Fund. Details of the Fund are disclosed in the Pension Fund Accounts found on pages 50 to 61.

12. The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2005-06.

13. Contingent Liabilities

Land and Planning

Kent County Council faces a very significant claim for compensation which is being fiercely resisted. It is a very complex case and any hearing is likely to be towards the end of 2006. While the claim is for several million pounds, it is not possible to predict the outcome.

Contract Claims

There are three potential claims against the Council but none are sufficiently certain to provide for in the Accounts. The potential maximum loss on two of these is around £0.5m, the other is unknown.

Non-compliance

There is one case pending, under the Environment Protection Act 1990. The Council is in negotiation with the

potential claimant and no legal action has yet been taken. However, if this case does proceed and the Council loses the case, we could face costs of around £0.25m plus an unlimited fine.

Notes to the Accounts

Employment

There are seven potential claims relating to discrimination and breach of contract in employment. In six of these cases where the damages being sought have been quantified, the total is approximately £0.5m. The Council has not admitted liability in any of these cases. There is one further case of sex/racial discrimination, for which the damages sought have not been quantified. The claim is in preliminary stages but it should be noted that as there is no cap on damages in discrimination cases. If the case is lost significant damages could be awarded.

There are a significant number of claims (253) from part-time workers claiming backdated membership of the Local Government or Teacher's Pension Scheme. The cost to the Council, if cases are lost or settled, is calculated by the application of a complicated formula. Any costs resulting from these claims are met by an increase in the Council's contribution to the Pension Scheme.

Education

A case has reached a negotiated settlement. However, the Courts have not accepted the settlement and so this matter may be restored for hearing. If the Council is required to pay the Appellant's costs, these could total £15k. The Council is contesting the issue of costs.

Trust Fund Accounts

Kent County Council is responsible for the application of income from Trust Funds which have been provided from gifts and legacies for items such as school prizes. These are not included in the County Council's balance sheet.

Balance Sheet at 31 March

	2005-06	2004-05
	£	£
Current assets		
Investments	46,241	49,629
Debtors	861	630
Cash	98,603	87,499
	145,705	137,758
Represented by		
Trust funds -		
Capital	-45,115	-48,209
Revenue	-100,590	-89,549
	-145,705	-137,758

Statement of Total Movements in Reserves

	2005-06		2004-05
	£'000	£'000	£'000
Surplus/deficit(-) for the year:			
- General Fund/Council fund	-2,500		8,644
<i>add back</i> movements on earmarked revenue reserves	14,266		19,507
Schools reserves	4,928		19,244
<i>deduct</i> Appropriation from pensions reserve	-12,047		-4,450
Actuarial gains and losses relating to pensions	-21,043		-217,794
Total increase/decrease(-) in revenue resources (note 1)		-16,396	-174,849
Increase/decrease(-) in useable capital receipts	3,195		-6,345
Increase/decrease(-) in unapplied capital grants and contributions	-3,071		-10,625
Total increase/decrease(-) in realised capital resources (note 2)		124	-16,970
Gains/(losses) on revaluation of fixed assets	93,957		280,022
Total increases/decreases(-) in unrealised value of fixed assets (note 3)		93,957	280,022
Value of assets sold, disposed of or decommissioned (note 4)		-117,965	-85,893
Capital receipts set aside	18,472		20,230
Revenue resources set aside	-54,714		-40,070
Movement on Government Grants Deferred	-14,954		-13,630
Grants and Contributions Applied	102,687		98,088
Total increase/decrease(-) in amounts set aside to finance capital investment (note 5)		51,491	64,618
		11,211	66,928
Increase/decrease(-) on the pensions reserve		12,047	4,450
Total recognised gains and losses		23,258	71,378

Notes to the Statement of Total Movements in Reserves

	General Fund Balances £'000	Earmarked Revenue Reserves £'000	Pensions Reserve £'000
1. Movements in revenue resources			
Surplus/deficit(-) for 2005-06			
Appropriations to/from revenue	-2,500	14,266	-12,047
Actuarial gains and losses relating to pensions			-21,043
	-2,500	14,266	-33,090
Balance brought forward at 1 April 2005	28,335	59,828	-624,636
Balance carried forward at 31 March 2006	25,835	74,094	-657,726

Pensions Reserve

The actuarial gains and losses

	Local Government Pension Scheme					
	2005-06		2004-05		2003-04	
	£000's	%	£000's	%	£000's	%
Difference between the expected and actual return on assets	161,890	15.5	31,211	3.9	94,781	13.7
Difference between actuarial assumptions about liabilities and actual experience	-764	0.0	-29,260	-2.7	-559	-0.1
Changes in the demographic and financial assumptions used to estimate liabilities	-182,169	-1.2	-219,745	-15.9	94,222	8.7
	-21,043		-217,794		94,222	

Notes to the Statement of Total Movements in Reserves

Earmarked Reserves

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m, the sum of which are shown in the table on page 42.

Special funds

These are reserves held primarily to facilitate the implementation of economic development and tourism initiatives and policy and regeneration expenditure.

Vehicles, plant and equipment

This is a reserve for the replacement and acquisition of vehicles, plant and equipment.

Office strategy

This is a reserve to support the implementation of major office strategy projects.

Kings Hill development smoothing reserve

Comprises the County Council share of distribution from proceeds of the Kings Hill development received in accordance with the terms of the Development Agreement. These distributions can vary considerably from year to year so this reserve is used to smooth the impact on the revenue budget over the medium term.

Swan Valley School PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments for the Swan Valley School PFI scheme. The reserve will comprise contributions from the Education revenue budget and a proportion of grant funding received from the government.

Gravesham North Kent (GNK) Reserve

A reserve which comprises funds received from Dartford, Gravesham and Swanley Primary Care Trust to be used to cover revenue pressures following the opening of the GNK PFI project, a project undertaken in partnership between Kent Social services and Gravesham & North Kent Hospital.

Asylum Reserve

A reserve to cover the impact of any shortfall in grant funding following changes to grant rules.

Supporting People Reserve

This is unspent 2004/05 and 2005/06 grant which will be used to smooth out the loss of grant funding in future years.

Telecare Technology Reserve

A reserve to cover the re-phased costs of Telecare, technology designed to assist people to stay in their own homes longer rather than go into care. The annual costs will be drawn over the next four years as the programme is rolled-out.

Adult Education Rollover

This has been fully utilised in 2005-06

Environmental Initiatives Reserve

This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners. The reserve largely comprises resources received from external funders against which expenditure will be incurred.

Rolling budget reserve

This reserve represents the roll forward of funds to cover re-scheduling of revenue expenditure from previous years.

Notes to the Statement of Total Movements in Reserves

Kent Enterprise for Youth (KEY Training Services)

This represents the balance of unspent funds carried forward to meet future business commitments relating to the training provider service.

Land Compensation and Blight Payments reserve

This reserve is to cover the future liability for land compensation claims, largely associated with the completed Thanet Way highway scheme.

Dilapidations reserve

This reserve is to provide for the potential dilapidation costs that the Council faces when existing leases for office accommodation cease.

Elections reserve

This reserve is to cover the costs of the County Council elections, which occur every 4 years, and bi-elections. A contribution is made to the reserve each year in order to even the impact upon the council tax.

Workforce reduction reserve

This reserve is to provide for the redundancy and other costs of potential staffing reductions required to achieve budget savings.

Pay Equalisation Reserve

A reserve to cover the costs in 2006-07 and beyond of the restructure of the Kent Pay Scheme.

IT Asset Maintenance Reserve

This reserve will contribute to the funding of the IT refresh programme which will give the Council ongoing and sustainable capacity to replace ageing technology.

Performance Reward Grant (PRG)

This reserve comprises funding from the ODPM Performance Reward Grant to fund projects aimed at improving performance over the medium term.

Brenchley House Sinking Fund

This reserve will be drawn down over the next few years as we pay revenue streams for the occupation of Brenchley House as opposed to the original plan of immediate capital expenditure.

Lenders Option Borrowers Option (LOBO) Equalisation Reserve

A reserve to smooth the impact on the revenue budget over the medium term of stepped interest rates on the costs of borrowing.

Prudential Equalisation Reserve

A reserve to smooth the impact on the revenue budget over the medium term of prudential borrowing costs i.e. the costs of borrowing to support the capital programme, which are not supported by Government grant.

Insurance reserve

This is a reserve for the cost of insurance claims in excess of the amount provided for in the insurance fund provision. It provides cover for claims not yet reported but likely to have been incurred.

Other

These mainly comprise various reserves held in respect of initiatives commenced in previous years for which

remaining planned financial provision will be utilised in 2006-07 or future years as initiatives are completed.

Notes to the Statement of Total Movements in Reserves

Other Earmarked Reserves	Balance at 1 April 2005	Movement	Balance at 31 Mar 2006
	£'000	£'000	£'000
Special funds	-3,229	776	-2,453
Vehicles, plant and equipment	-4,010	679	-3,331
Office Strategy	-579	165	-414
Kings Hill development - Colts Hill & Leybourne/West Malling Bypass	-700	-1,146	-1,846
Swan Valley school PFI equalisation reserve	-2,691	-876	-3,567
Gravesham North Kent Reserve (from D G & S PCT)	-2,000	0	-2,000
Asylum Reserve	0	-3,791	-3,791
Supporting People Reserve	-1,166	-2,243	-3,409
Assistive Technology	0	-1,531	-1,531
Adult Education Rollover	-679	679	0
Environmental initiatives reserve	-1,895	-191	-2,086
Rolling budget reserve	-9,948	-319	-10,267
KEY Training Services	-912	580	-332
Land Compensation and Blight Payments reserve	-1,831	0	-1,831
Dilapidations reserve	-1,177	-650	-1,827
Elections reserve	-855	552	-303
Workforce Reduction reserve	-2,242	257	-1,985
Pay Equalisation Reserve	0	-708	-708
IT Asset Maintenance reserve	-4,558	2,080	-2,478
PRG Reserve	-7,376	206	-7,170
Brenchley House Sinking Fund	-614	85	-529
LOBOs Equalisation Reserve	-192	-1,243	-1,435
Prudential Equalisation Reserve	-500	-5,516	-6,016
Other	-4,737	334	-4,403
Total	-51,891	-11,821	-63,712
Insurance Reserve			
KCC	-7,704	-2,502	-10,206
Commercial Services	-233	57	-176
Total	-7,937	-2,445	-10,382
	-59,828	-14,266	-74,094
Magistrates*	-47		
Commercial Services Reserves			
Movement from Earmarked and Trading Account Reserves to fund capital spend		819	
Total Movement as per SRA		-13,447	

* The balance on this reserve has been transferred to the provision for the debt owed by Magistrates. It was not taken through revenue and is therefore not reflected as a movement from reserves. The total balance as at 1 April 2005 is therefore £59,875 as per the face of the balance sheet.

Notes to the Statement of Total Movements in Reserves

School Reserves

At 31 March 2006 funds held in school revenue reserves stand at £65.626m. These reserves are detailed in the table below.

	Balance at 1 April 2005	Movement	Balance at 31 Mar 2006
	£'000	£'000	£'000
School delegated revenue budget reserves - committed	-35,646	-3,093	-38,739
School delegated revenue budget reserves - uncommitted	-24,774	970	-23,804
Unallocated Schools budget	-2,403	-5,711	-8,114
Reserves used to fund school loans *	2,125	2,906	5,031
Total	-60,698	-4,928	-65,626

* under the school loans scheme, loans to schools are financed from the aggregate of school reserves. The sum of such reserves is accordingly reduced by the value of loans outstanding.

The increase in reserves of £4.928m is made up of the following:

	£'000
Underspend (as per page 1)	-7,834
Increase in school loans	2,906
	<u>-4,928</u>

	Usable capital receipts	Unapplied capital grants and contributions
	£'000	£'000
Amounts receivable in 2005-06	26,084	84,795
Amounts applied to finance new capital investments in 2005-06	-22,889	-87,866
Total increase/(-)decrease in realised capital resources in 2005-06	<u>3,195</u>	<u>-3,071</u>
Balance brought forward at 1 April 2005	<u>4,278</u>	<u>27,955</u>
Balance carried forward at 31 March 2006	<u><u>7,473</u></u>	<u><u>24,884</u></u>

Usable receipts represent the proportion of income from the sale of fixed assets that can be used to fund capital expenditure. The balance is generally committed to fund the existing capital programme.

Notes to the Statement of Total Movements in Reserves

		Fixed Asset Restatement Account £'000
3. Movements in unrealised value of fixed assets		
Gains/losses on revaluation of fixed assets in 2005-06		93,957
Total increase/decrease(-) in unrealised capital resources in 2005-06	(a)	93,957
4. Value of assets sold, disposed of or decommissioned		
Amounts written off for capital expenditure which does not, in accounting terms, enhance asset values.		-68,071
Value of assets disposed of in 2005-06		-51,797
Write back of Turner		1,923
Loss on shares		-20
	(b)	-117,965
Total movement on reserve in 2005-06	(a)+(b)	-24,008
Balance brought forward at 1 April 2005		522,801
Balance carried forward at 31 March 2006		498,793

The Fixed Asset Restatement Account contains the initial difference between the valuation of assets and their historic value, together with the value of subsequent revaluations. It also reflects the net book value of assets when they are disposed of and capital expenditure written out. The account cannot be used to support spending.

	Capital financing account £'000	Government grants deferred £'000	Total £'000
5. Movements in amounts set aside to finance capital investment			
Capital receipts set aside in 2005-06:			
- reserved receipts		-	
- usable receipts applied	18,472	-	
Total capital receipts set aside in 2005-06	18,472	0	18,472
Revenue resources set aside in 2005-06			
- capital expenditure financed from revenue	8,357	-	
- reconciling amount for provisions for loan repayment	-63,071	-	
Total revenue resources set aside in 2005-06	-54,714	0	-54,714
Grant applied to capital investment in 2005-06	102,687		
Amounts credited to the Asset Management Revenue Account in 2005-06		-14,954	
Movement on Government Grants Deferred	102,687	-14,954	87,733
Total increase/decrease(-) in amounts set aside to finance capital investment			51,491
Total movement on reserve in 2005-06	66,445	-14,954	
Balance brought forward at 1 April 2005	397,950	134,221	

Balance carried forward at 31 March 2006

464,395 119,267

Notes to the Statement of Total Movements in Reserves

The capital financing account contains the amounts which are required by statute to be set aside from revenue and capital receipts for the repayment of external loans, together with the amount of usable capital receipts, revenue grants and contributions which have been used to finance capital expenditure.

The Government grants deferred account represents amounts received to fund expenditure, which will be released to offset depreciation in respect of those assets to which they relate.

Cash Flow Statement

The consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	Notes	2005-2006		2004-2005
		£'000	£'000	£'000
Revenue Activities				
Cash outflows				
Employee costs		998,688		914,005
Other operating costs		913,491		846,623
Precepts and levies paid		549		1,000
Cash inflows				
Precepts on Collection funds		-456,339		-435,153
Non-domestic rate income		-410,515		-337,406
Revenue support grant		-478,053		-500,669
Other government grants	1	-354,081		-360,383
Cash received for goods and services		-296,592		-255,024
Other operating cash receipts		-9,535		-9,345
Net cash inflow revenue activities	2		-92,387	-136,352
Returns on Investments and Servicing of Finance				
Cash outflows				
Interest paid		52,239		49,035
Interest element of finance lease rental		37		29
Cash inflows				
Interest received		-8,666		-7,164
			43,610	41,900
			-48,777	-94,452
Capital Activities				
Cash outflows				
Purchase of fixed assets		216,902		174,235
Expenditure on deferred charges		15,368		10,236
Cash inflows				
Sale of fixed assets		-35,083		-23,082
Capital grants received	1	-79,537		-47,125
Other capital cash receipts		-5,418		-10,102
			112,232	104,162
Net cash outflow before financing			63,455	9,709
Management of Liquid Resources				
Net increase/decrease(-) in short term investments			-20,092	81,650
Financing				
Cash outflows				
Repayments of amounts borrowed		74,295		122,558
Capital element of finance lease rentals		202		223

Repayment of Credit Liability		13,365	9,147
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Cash Flow Statement

Cash inflows

New loans raised		-126,170	-225,797
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		-38,308	-93,869
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Net decrease/increase(-) in cash	3	5,055	-2,510
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Notes to the Cash Flow Statement

1. Grant analysis

Revenue Grants	2005-06	2004-05
	£'000	£'000
Department for Education and Skills	238,513	216,455
Department of Health	49,549	52,780
Home Office	21,630	31,562
Department of Constitutional Affairs	0	8,189
Department for Transport, Local Government and the Regions	59	2,802
European Community	748	2,096
Countryside Commission/Forestry Commission	0	423
Office of the Deputy Prime Minister	41,768	45,255
Cabinet Office	538	340
Department of the Environment, Food and Rural Affairs	630	428
Department of Work and Pensions	54	53
South East Development Agency	342	
New Opportunity Fund (Lottery)	250	
	354,081	360,383
Capital Grants		
Department for Education and Skills	40,617	34,314
Department for Transport, Local Government and the Regions	24,461	1,253
Department of Constitutional Affairs	0	197
Office of the Deputy Prime Minister	6,555	2,096
Department of Health	650	476
Lottery and other	7,254	8,789
	79,537	47,125

2. Reconciliation of revenue surplus to revenue cashflow

	2005-06	2004-05
	£'000	£'000
Surplus(-)/Deficit for the year	2,500	-8,644
Non-cash transactions		
Minimum revenue provision and amounts set aside from revenue	-33,143	-30,617
Contributions to reserves	-29,638	-53,002
Contributions to provisions	7,677	-6,931
	-52,604	-99,194
Items on an accruals basis		
Increase/decrease(-) in revenue debtors	-4,605	14,662
Increase(-)/decrease in revenue creditors	-2,299	-11,891
Increase/decrease(-) in stocks	9786	609
	-49,722	-95,814
Items shown later in the cashflow statement		
Servicing of finance	-42,665	-40,539
Net cashflow from revenue activities	-92,387	-136,353

Notes to the Cash Flow Statement

3. Reconciliation of movement in cash to the movement in net debt

	Balance 1 April 2005 £'000	Balance 31 Mar 2006 £'000	Movement in the year £'000
Cash and bank balances	85,702	102,615	-16,913
Cash overdrawn	-79,956	-101,924	<u>21,968</u>
Decrease in cash			5,055
Debt repayable within 1 year	-8,168	-40	8,128
Debt repayable after 1 year	-822,521	-882,523	-60,002
Current investments	239,326	219,234	<u>-20,092</u>
Increase in net debt			-71,966

4. Definition of Liquid Resources

Liquid resources have been defined as the short term investments that are disclosed on the face of the balance sheet.

Pension Fund Accounts

This is an extract from a more detailed published statement, a copy of which is available for inspection at County Hall. Further information about the Pension Fund Accounts can be obtained from Nick Vickers, Head of Financial Services. Telephone Maidstone (01622) 671411 or e-mail nick.vickers@kent.gov.uk.

Under the provisions of the consolidated Local Government Pension Scheme Regulation 1997, a Pension Fund has been established and is administered by Kent County Council for the purpose of providing pensions and other benefits for the pensionable employees of Kent County Council, Medway Council (unitary authority), the district councils in Kent and of other employing bodies established within the county area. Teachers are not included as they have their own national pension scheme.

The Fund is maintained by investing in stock market securities, both in this country and overseas, and in real property and property units trusts within the UK. Contributions are made to the fund by employees at the rate of 6% of their pensionable remuneration for officers and new members of the scheme. Existing manual staff entitled to pay 5% will continue to contribute at 5% whilst they remain in continuous employment in the same capacity. The rate of employer's contribution is determined by the Fund's actuary at a level necessary to assure that the Fund is able to meet 100% of its existing and prospective liabilities. Any shortfall is being spread over a period of 20 years for Local Authority employers and average future working life time for other employers in the Fund.

A triennial valuation of the Fund was carried out as at 31 March 2004 and this set Kent County Council's employer contribution rate at 22.8% of payroll for the three year period commencing 1 April 2006. This increase is being phased in over the three years with rates payable of 20.4%, 21.7% and 23.1%.

The market value of the Fund's assets at the valuation date was £1,589.3m and the Actuary placed a value of £1,603m on the assets. The main actuarial assumptions used were as follows -

Valuation of assets:-	assets have been valued at a 12 month smoothed market value
Discount rate:-	6.3% p.a.
Rate of general pay increases:-	4.4% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-	2.9% p.a.

The main result of this valuation was to show that the funding level had decreased from 76% to 63%.

The next actuarial valuation is due as at 31 March 2007 and any change in employer contribution rates as a result of that valuation will take effect from 1 April 2008.

The Fund has been accepted by the Inland Revenue as an 'exempt approved scheme' under the Finance Act 1970 and, as such, qualifies for exemption from tax on investment income, underwriting commission and gains on selling transactions. By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

Administrative costs of paying pensions, allowances and other benefits, maintaining employees' records, arranging transfer values etc. are borne by the Fund. Costs relating to the investment of the Fund are also charged in this way

Pension Fund Accounts

The Pension Fund accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - a Statement of Recommended Practice. However, disclosures have been limited to those required by the Code of Practice on Local Authority Accounting in the United Kingdom: a Statement of Recommended Practice.

A small part of the daily cash balance of the Fund awaiting investment is used by the County Council as part of its temporary borrowing requirements. The regulations require that interest on such balances be credited to the Fund at not less than 7 days notice money market rates. The remaining cash is split between Investment Fund Managers, who hold it on deposit for interest until required.

Employing Bodies. These include Scheduled Bodies which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund; and Admitted Bodies which participate in the Fund by virtue of an admission agreement made between the Authority and the relevant body. Admitted bodies may be either voluntary, charitable or similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

As required by statute the council has approved a Statement of Investment Principles. It was prepared with assistance from the Fund's Investment consultants Hymans Robertson and after consultation with interested parties. It provides the basis for the future development of the Committee's principles for managing the investments of the Fund. The statement will be subject to review by the Committee on a biennial basis. It is available on the Authority's website www.kent.gov.uk. Alternatively, a copy may be obtained on request from Nick Vickers, Head of Financial Services, Sessions House, County Hall, Maidstone, Kent, ME14 1XQ.

Summary of Main Accounting Policies:

1. The Pension Fund Accounts are accounted for on an accruals basis for income and expenditure with the exception of transfers in and out, which are accounted for on a cash basis.
2. No account is taken of the long term liabilities to pay pensions and other benefits after the period end.
3. Quoted investments are stated at market value based on the middle market quotation on the relevant stock exchange ruling on 31 March 2006. Unit Trusts and managed funds are valued at the average of the bid and offer prices provided by the relevant fund managers, which reflect the market value of the underlying investment. Unquoted investments are valued by the fund managers at the year end in accordance with generally accepted guidelines.
4. Industrial and Commercial properties were valued at open market prices as at 31 December 2005 and then indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2006.
5. Investments held in foreign currencies have been valued on the same basis and translated into sterling at the rate ruling on 31 March 2006. All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.
6. Dividends, rents and cash deposits have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Foreign income has been translated into sterling at the rate ruling at the date of the transaction. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin.

Pension Fund Accounts

7. Normal contributions from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Payment of pensions and pensions increases, are accounted for on an accruals basis. Lump sum payments are accounted for on the date of retirement or on death. Transfer values into and out of the Fund, return of contributions and other intermittent transactions are not dealt with on an accruals basis but are included in the accounts when the transactions occur.

Pension Fund Accounts

Fund Account for the year ended 31 March 2006

	Notes	2006		2005
		£'000	£'000	£'000
Contributions and Benefits				
Contributions Receivable:				
From employers	1	139,933		113,372
From employees	1	38,303		36,123
Transfers In	2	28,144		17,939
			206,380	167,434
Benefits Payable				
Pensions	3	-93,699		-87,527
Lump Sums	3	-20,667		-17,648
Payments to and on account of leavers				
Refunds of contributions		-1,544		-804
Transfers Out	4	-14,622		-13,165
Administrative and other expenses borne by the sche	5	-2,151		-2,049
			-132,683	-121,193
Net additions/withdrawals(-) from dealings with Members			73,697	46,241
Returns on Investments				
Investment Income	6	65,761		54,016
Change in Market Value of Investments	7	446,207		109,780
Overseas Irrecoverable Taxation		-793		-646
		511,175		163,150
Investment Management Expenses				
Investment Managers		-4,122		-3,644
Actuarial		-236		-137
Performance Measurement		-45		-43
Other expenses		-242		78
Net Return on Investments			506,530	159,404
Net increase/decrease(-) in Fund during the year			580,227	205,645
Opening Net Assets of the Scheme			1,794,945	1,589,300
Closing Net Assets of the Scheme			2,375,172	1,794,945

Pension Fund Accounts

Net Assets Statement as at 31 March 2006

	Notes	2006		2005	
		£'000	£'000	£'000	£'000
Investments at Market Value	7				
Fixed Interest Securities					
- Public		81,813		68,717	
- Other		73,699		67,211	
			155,512		135,928
Equities					
- UK		993,573		763,730	
- Overseas		513,167		359,415	
			1,506,740		1,123,145
Pooled Investment Vehicles					
- UK		189,102		144,883	
- Overseas		127,966		75,866	
- Property		12,941		10,466	
			330,009		231,215
Property - Freehold			189,372		165,611
Global Tactical Asset Allocation			150,512		89,184
Cash Deposits			23,389		39,695
Other Investments			5,881		-2,547
			2,361,415		1,782,231
Current Assets and Liabilities	8		13,757		12,714
Net Assets			2,375,172		1,794,945

Notes to the Pension Fund Account

1. Contributions Receivable

		2006	2005
		£'000	£'000
From Employers	Normal	128,517	105,520
	Special (Early Retirements)	11,416	7,852
		139,933	113,372
From Employers	Kent County Council	61,169	49,280
	Scheduled Bodies	66,505	57,880
	Admitted Bodies	12,259	6,212
		139,933	113,372
		2006	2005
		£'000	£'000
From Employees	Kent County Council	16,912	15,610
	Scheduled Bodies	18,797	18,148
	Admitted Bodies	2,392	2,327
	Lump Sum Contributions	202	38
	38,303	36,123	
Note:	As at 31 March the comparative numbers of	2006	2005
	Kent County Council	20,001	18,774
	Scheduled Bodies	17,489	17,956
	Admitted Bodies	1,909	2,003
		39,399	38,733

2. Transfers In

There were no bulk transfers into the Fund during the current or previous year.

3. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2006	2005
	£'000	£'000	£'000	£'000	£'000
Pensions					
Retirement pensions	29,660	30,790	2,664	63,114	59,003
Widows pensions	1,843	2,495	136	4,474	4,231
Children's allowances	57	106	0	163	140
Pensions increase	14,075	15,516	636	30,227	28,369
Less benefits recovered direct from employing authorities	0	-4,166	-113	-4,279	-4,216
	45,635	44,741	3,323	93,699	87,527
Lump Sums					
Retirement	6,374	10,727	1,240	18,341	15,752
Death gratuities	926	1,300	100	2,326	1,896
	7,300	12,027	1,340	20,667	17,648

The amount stated as pensions increase represents the year on year cumulative increase on the nominal retirement pension received at the start date of retirement.

Notes to the Pension Fund Account

4. Transfers Out

	2006	2005
	£'000	£'000
Individual	12,813	12,556
Bulk	1,809	609
	<u>14,622</u>	<u>13,165</u>

5. Administrative and other Expenses borne by the Scheme

	2006	2005
	£'000	£'000
Internal Administration	2,074	2,036
Other miscellaneous expenses	77	13
	<u>2,151</u>	<u>2,049</u>

6. Summary of Income from Investments

	2006		2005	
	£'000	%	£'000	%
Fixed Interest				
- UK	7,500	11.40	6,635	12.28
- Overseas	661	1.01	1,172	2.17
Equities				
- UK	31,866	48.46	24,030	44.49
- Overseas	9,074	13.80	6,614	12.24
Pooled Investment Vehicles				
- UK	140	0.21	511	0.95
- Overseas	3,516	5.35	2,592	4.80
- Property	777	1.17	229	0.42
Property - Freehold	<u>10,046</u>	<u>15.28</u>	<u>9,475</u>	<u>17.54</u>
Total Income From Investments	63,580	96.68	51,258	94.89
Currency Deposit Accounts	8	0.01	3	0.01
Cash Balances	2,144	3.26	2,746	5.08
Sub-Underwriting Commission/other	29	0.05	9	0.02
	<u>65,761</u>	<u>100.00</u>	<u>54,016</u>	<u>100.00</u>

Notes to the Pension Fund Account

7. Analysis of Change in Market Value of Investments

	Market Value 31.03.05 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value 31.03.06 £'000
<u>Fixed Interest Securities</u>					
- UK Public	58,927	128,228	-111,192	267	76,230
- UK quoted	68,262	29,905	-26,507	1,308	72,968
- UK future contracts	-5,723	79,134	-67,802	-26	5,583
- Overseas Public	9,790	22,175	-32,771	806	0
- Overseas quoted	10,368	14,032	-10,548	328	14,180
- Overseas future contracts	-5,696	34,976	-42,843	114	-13,449
<u>Equities</u>					
- UK quoted	758,236	246,232	-177,385	166,490	993,573
- UK unquoted	3,431	0	-3,450	19	0
- UK future contracts	2,063	34,579	-36,655	13	0
- Overseas quoted	358,127	151,591	-137,876	135,578	507,420
- Overseas future contracts	1,288	15,203	-10,758	14	5,747
<u>Pooled Investment Vehicles</u>					
<u>Managed Funds</u>					
- UK	14,633	66,351	-56,417	7,922	32,489
- Overseas	8,324	180	-3,381	5,612	10,735
<u>Unit Trusts</u>					
- UK Public/Fixed Interest	105,671	25,438	-6,373	9,561	134,297
- UK	24,579	0	-5,686	3,423	22,316
- Overseas	67,542	33,663	-6,031	22,057	117,231
- Property	10,466	0	0	2,475	12,941
Property - Freehold	165,611	14	-3,650	27,397	189,372
Global Tactical Asset Allocation	89,184	0	0	61,329	150,513
	<u>1,745,083</u>	<u>881,701</u>	<u>-739,325</u>	<u>444,687</u>	<u>2,332,146</u>
<u>Cash</u>					
- Cash Deposits	31,627	426		1,520	21,290
- Cash backing open future contracts	8,068				2,098
<u>Other Investments</u>					
- Debtors - Outstanding Sales	1,000				7,558
- Creditors - Outstanding Purchases	-10,899				-12,739
- Profit/Loss on Forward Currency	19				-353
- Investment Income Accruals	7,333				11,415
	<u>1,782,231</u>			<u>446,207</u>	<u>2,361,415</u>

The following reflects the monetary and percentage split of the investments of the Fund at 31 March 2006 and previous year comparisons, between five investment managers and property portfolio (including cash held by Fund Managers):

	2006		2005	
	£000's	%	£000's	%
Baillie Gifford	369,782	15.8	245,044	13.8
Goldman Sachs	667,872	28.4	501,614	28.2
Schroders	702,616	29.9	549,506	31
Societe Generale	406,452	17.3	301,739	17
Property	202,845	8.6	176,976	10
Henderson	433	0	0	0
	<u>2,350,000</u>	<u>100</u>	<u>1,774,879</u>	<u>100</u>



Notes to the Pension Fund Account

8. Current Assets and Liabilities

	2006	2005
	£'000	£'000
Cash	7,915	4,566
Contributions due from		
-Scheduled Bodies	6,613	7,654
- Admitted Bodies	1,764	656
	8,377	8,310
Other Debtors	875	700
Benefits payable	-925	0
Other Creditors	-2,485	-862
Total	13,757	12,714

9. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. These contributions are invested separately from the Pension Fund, with either Equitable Life Assurance Company, Prudential Assurance Company or Standard Life Assurance Company.

The policy with Equitable Life has an anniversary date of 30 September. Equitable Life has not been able to provide financial statements for 31 March year end dates.

The value of funds at 30 September 2005 was £1,782,087. Equitable Life has been asked to change the anniversary date of the policy to 31 March to enable the disclosure to be made in future years

The disclosure for Prudential and Standard Life is set out below.

	Prudential 2004-05 £000	Standard Life 2004-05 £000	Total 2004-05 £000	Prudential 2005-06 £000	Standard Life 2005-06 £000	Total 2005-06 £000
Value at 1 April	0	1,087	1,087	1,949	1,416	3,365
Income						
Contributions Received	33	170	203	177	162	339
Transfer Values Received	1,937	103	2,040	206	111	317
Interest & bonuses	15	0	15	93	0	93
Total	1,985	273	2,258	476	273	749
						0
Expenditure			0			0
Retirement Benefits Paid	0	-46	-46	-95	-52	-147
Transfer Values Paid	0	-12	-12	-10	-38	-48
Refund of Contributions	-36	0	-36	-141	0	-141
Total	-36	-58	-94	-246	-90	-336
Change in Market Value	0	114	114	1	333	334
Value at 31 March	1,949	1,416	3,365	2,180	1,932	4,112

Notes to the Pension Fund Account

10. Related Party Transactions	2006	2005
	£'000	£'000
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring and other services.	2,074	2,036
Transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable.	139	360

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. £139,466 is the outstanding balance due at year end from The Marlowe Academy.

There were no related party transactions with members or senior officers.

Scheduled Bodies

Local Authority and District Councils

Ashford Borough Council	Medway Council
Canterbury City Council	Sevenoaks District Council
Dartford Borough Council	Shepway District Council
Dover District Council	Swale Borough Council
Gravesham Borough Council	Thanet District Council
Kent County Council	Tonbridge and Malling Borough Council
Maidstone Borough Council	Tunbridge Wells Borough Council

Schools

Allington Primary School	Montgomery GM School
All Souls County Primary School	New Brompton College
Angley School	Newington Junior School
Archbishops CE School	Northfleet School for Boys
Aylesford School	Oakwood Park Grammar School
Barton Court Grammar School	Oldborough Manor Community College
Bennett Memorial School	Our Lady of Hartley RC Primary School
Borough Green Primary School	Park Farm County Primary School
Bradbourne School	Pent Valley Secondary School
Brockhill Park School	Queen Elizabeth's Grammar School
Canterbury High School	Rainham Mark Grammar School
Charles Dickens High School	Robert Napier School
Chatham Grammar School for Girls	Rochester Grammar School for Girls
Chatham House Grammar School for Boys	Roseacre Junior School
Chaucer Technology School	Sandwich High School
Cheyne Middle School	Senacre Technology School
Cornwallis School, Maidstone	Simon Langton Grammar School for Boys
Cranbrook School	Sir Roger Manwood School
Dane Court Grammar School	Skinner's School
Dartford Grammar School for Boys	Snodland County Primary School
Dartford Grammar School for Girls	Southlands Community Comprehensive
Ditton Infant School	St Anselm's RC Comprehensive School
Ditton CE Junior School	St Bartholomew County Primary School
Dover Grammar School for Boys	St Botolphs County Primary School
Folkestone School for Girls	St Edmund of Canterbury Comprehensive
Fulston Manor School, Sittingbourne	St Francis County Primary School
Gravesend Grammar School for Boys	St George's School, Broadstairs
Gravesend Grammar School for Girls	St George's School, Gravesend
Greatstone County Primary School	St Gregory's Catholic Comprehensive
Halfway Houses County Primary School	St John Fisher RC School
Harcourt County Primary School	St John RC Comprehensive
Hayesbrook High School for Boys	St Joseph RC Primary School
Herne Bay High School	St Simon Stock School
Herne Bay Junior School	Stella Maris RC Primary School
Hillview School for Girls	Sutton at Hone County Primary School
Holy Family RC Primary	Thamesview School
Holy Trinity County Primary School, Dartford	Thomas Aveling School

Holy Trinity County Primary School, Gravesend
Homewood School, Tenterden

Tonbridge Grammar School for Girls
Tunbridge Wells High School

Notes to the Pension Fund Account

Horton Kirby County Primary School
Howard School
Hugh Christie School
Larkfield Brookfield Junior School
Malling School
Maplesden Noakes School, Maidstone
Mascalls School
Meopham School
Minster College

Westlands School
Wilderness School
Willesborough County Primary Junior School
Wilmington County Primary School
Wilmington Grammar School for Boys
Wilmington Grammar School for Girls
Wincheap County Primary School
Wrotham School

Further Education Colleges

Canterbury College
Hadlow College
Hilderstone College
Mid Kent College

North West Kent College
South Kent College
Thanet College
West Kent College

Other Scheduled Bodies

Ash Parish Council
Birchington Parish Council
Borough Green Parish Council
Broadstairs and St Peter's Town Council
Charter Trustees of Folkestone
Chestfield Parish Council
Cranbrook Parish Council
Darenth Parish Council
Deal Town Council
Ditton Parish Council
Dover Town Council
East Malling and Larkfield Parish Council
Eastry Parish Council
Edenbridge Town Council
Farningham Parish Council
Faversham Town Council
Great Mongeham Parish Council
Hartley Parish Council
Hawkhurst Parish Council
Herne & Broomfield Parish Council
Horton Kirby and South Darenth Parish Council
Hythe Town Council
Kent and Essex Sea Fisheries Committee
Kent and Medway Towns Fire Authority
Kent Institute of Art and Design
Kent Magistrates Courts Committee
Kent Police Authority

Kent Probation and After Care Committee
Kent Top Temps Limited
Kent Valuation Tribunal
Leigh Parish Council
Longfield and New Barn Parish Council
Lower Medway Internal Drainage Board
Minster Parish Council
Otford Parish Council
Ramsgate Charter Trustees
River Stour Internal Drainage Board
Romney Marsh Levels Internal Drainage Board
Sandwich Town Council
Seal Parish Council
Sevenoaks Town Council
Snodland Town Council
Southborough Town Council
Staplehurst Parish Council
Stone Parish Council
Swanley Town Council
Swanscombe and Greenhithe Town Council
Temple Ewell Parish Council
Tenterden Town Council
Upper Medway Internal Drainage Board
Westerham Parish Council
Woodnesborough Parish Council
Yalding Parish Council

Academies

Glossary of terms

Agency

The provision of services by one local authority, on behalf of and reimbursed by the responsible local authority or central government.

Best Value Accounting

The system of local authority accounting and reporting has been modernised to meet the changed needs of modern local government particularly the duty to secure and demonstrate Best Value in the provision of services. The Best Value Accounting Code of Practice provides guidance on the content and presentation of costs of service activities.

Budget

A statement defining the Council's policy over a specified period and expressed in financial or other terms.

Capital charges

A charge made to service revenue accounts for capital assets used in the delivery of services. The charge comprises two elements; a financing charge which is based on the value that the asset is held at in the Balance Sheet, and a depreciation charge for assets with a life of less than 60 years.

Capital expenditure

Expenditure on the provision and improvement of permanent assets such as land, buildings and roads.

Capital receipts

Money obtained on the sale of a capital asset.

Credit arrangements

An arrangement other than borrowing where the use of a capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

Deferred charges

Deferred charges include expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

Employee expenditure

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

Government grants

Part of the cost of local government's services is paid for by central government from its own tax income. These grants are of two main types. Some (specific grants and supplementary grants) are for particular services such as Magistrates and Highways and Transportation. Others are in aid of local services generally.

Intangible Assets

Capital spend on items such as software licences and patents.

Long-term debtors

Amounts due to Kent County Council where payment is to be made over a period of time in excess of one year.

Minimum Revenue Provision

The amount that the Council is required to charge to the revenue account each year to provide for the

repayment of debt.

Glossary of terms

Net operating expenditure

This comprises all expenditure minus all income, other than the precept and transfers from reserves.

Precept

The levying of a rate by one authority which is collected by another. Kent County Council precepts upon the district councils collection funds for its income but some bodies, e.g. the Environment Agency, precept upon Kent County Council.

Public Works Loans Board

A government controlled agency that provides a source of borrowing for public authorities.

Related party transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Revenue expenditure

Expenditure to meet the continuing cost of services including salaries, purchase of materials and capital financing charges.

Specific grants

See 'government grants'

Support service costs

The 'overhead' cost to Service Directorates of support services, such as architects, accountants and solicitors.

Usable capital receipts

The proportion of the proceeds arising from the sale of fixed assets that can be used to finance capital expenditure.

Item No 5

By: The Director of Finance
To: Governance and Audit Committee – 30 June 2006
Subject: Financial Regulations
Classification: Unrestricted

Summary: This very brief report informs Members of some minor changes to the Financial Regulations

FOR INFORMATION

1. As a result of the restructure of the directorates of the Council, and changes to some senior roles and responsibilities, it has been necessary to make some changes to the Financial Regulations.
2. The changes are ‘technical’ ones to directorate names and senior job titles. They also reflect the deletion of the Strategic Director (Resources) post and the creation of the Director of Finance post. No changes have been made to responsibilities or approval limits or such like.
3. The revised version of the Financial Regulations are available to any Member, on request.

Summary

Members are asked to **note** that technical changes to the Financial Regulations have been made to reflect the new KCC structure.

Andy Wood
Head of Financial Management
Ext 4622

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By: The Director of Finance

To: Governance & Audit Committee – 30 June 2006

Subject: **EXTERNAL AUDIT FEE AND 2006/07 JOINT AUDIT AND INSPECTION PLAN**

Summary: To seek Members agreement to the External Audit Fee and 2006/07 Joint Audit and Inspection Plan for the year ending 31 March 2007.

FOR DECISION

1. INTRODUCTION

1.1 At the meeting of this Committee on 1 March 2006, Members approved the External Audit Preliminary Audit Plan and Fee for 2006/07, and were informed that a full plan would be provided to a future meeting of this Committee.

2. 2006 / 07 AUDIT SERVICE PLAN

2.1 Attached is the 2006/07 Joint Audit and Inspection Plan, which provides more detail of the key risks, the audit approach, the audit team and the audit fees than the Preliminary Plan provided. Following external audit's planning work, a new business risk has been added for PFI schemes (See page 11 of the Plan). Further guidance and clarification around the 2006 Statement of Recommended Practice (SORP) has resulted in more detail being provided around this risk. Members are asked to approve this more detailed Plan.

2.2 This will be the second year that the external audit has been conducted under the new Code of Audit Practice.

Under the Audit Commission's code there are two aspects to the auditor's work:

- Accounts, including a review of the Statement of Assurance and Internal Control (SIC)
- Use of Resources assessment.

A new development for 2006/07 is the introduction by Government of Whole of Government Accounts (WGA), which aims to produce consolidated Accounts for the whole of the public sector. The scope of the audit work to validate our return (due in October) is still under discussion at the Audit Commission.

3. AUDIT FEE

- 3.1 The Audit Commission has provided indicative audit fee levels for all Authorities. Based on our gross expenditure, the audit fee range for Kent County Council is £240k to £445k. We have been categorised by PwC as medium risk, and an audit fee of £378k is proposed. Details of the fee calculation are included at page 21 of the attached Plan.

4. RECOMMENDATION

Members are asked to approve the 2006/07 Joint Audit and Inspection Plan and the audit fee for 2006/07.

Lynda McMullan
Director of Finance
Ext 4550

Kent County Council 2006/07 Joint Audit and Inspection Plan



The Members
Governance and Audit Committee
Kent County Council
County Hall
Sessions House
Maidstone
ME14 1XG

June 2006

Ladies and Gentlemen,

We are pleased to present to you our 2006/07 Joint Audit and Inspection Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Kent County Council.

We would like to thank members and officers of the Council for their help in putting together this Plan.

If you would like to discuss any aspect of our Joint Audit and Inspection Plan please do not hesitate to contact either Janet Eilbeck for any of the audit aspects or Stephen Mead in connection with any inspection matters.

Yours faithfully,

PricewaterhouseCoopers LLP

Stephen Mead
Audit Commission Relationship Manager

Encs

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In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Introduction

The purpose of this Plan

Our Joint Audit and Inspection Plan has been prepared to inform the members and officers of Kent County Council (the Authority) about our responsibilities as your external auditors and how we plan to discharge them. Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Authority.

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan considers the impact of these developments and risks.

Period covered by this plan

We provide you with details of our plans for the audit at the beginning of the financial year. This Plan outlines our audit approach for 2006/07, including the 2006/07 final accounts audit which we will undertake in summer 2007.

The environment you operate in is dynamic and, therefore, in this Plan we also provide an update of our plans for the 2005/06 accounts audit, which we originally outlined in our 2005/06 Plan and will undertake this coming summer.

We would like to thank Members and officers of the Authority for their help in putting together this Plan.

Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code). This is supported by the Statement of responsibilities of auditors and of audited bodies (the Statement). Both documents were issued in March 2005 and are available from the Chief Executive.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports follow the Statement and are in line with the Code. Although reports may be addressed to members and officers the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to members and officers in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

Our approach to the audit

Audit Work

Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Statement of Internal Control (SIC); and
- Use of Resources.

As in 2005/06 we are required to issue a two-part audit report covering both of these elements.

Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Authority. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on gaining a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into

components. We assess the risk characteristics of each component to determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key business processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

We aim to rely on the work done by internal audit wherever possible. We will ensure that a dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned approach

Use of Resources

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources. This conclusion will be based on criteria, which the Audit Commission has published separately and which cover key areas of corporate performance management and financial management arrangements.

When forming our conclusion we will seek to rely on:

- Your self assessment against the criteria;
- Your Internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Council.

As noted above, our conclusion will be issued as part of the audit report on your 2006/07 financial statements.

Mandatory work for 2006/07

Use of Resources

We will be required to carry out work at the Authority for the Comprehensive Performance Assessment (CPA) in respect of the Use of Resources.

The Use of Resources assessment is a key part of CPA and will be conducted in all councils. It involves judgments on financial planning and management, internal controls, and financial standing. It will also provide a value for money (VFM) judgment drawing on a self-assessment by the Authority. It focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services.

Performance on each of these elements is scored on a scale of 1 to 4, with 4 being the highest score. The Audit Commission will use the results to prepare an overall score to feed into the Annual Use of Resources score.

The Audit Commission has defined the scope and methodology for the work required to form the Use of Resources assessment and the links between

this judgement and the work to support our conclusion on proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Best Value Performance plans (BVPP)

We will review the 2006 BVPP to assess whether it complies with statutory guidance.

Audit of performance indicators

We will be required to undertake audit work on specified performance indicators which support the service element of CPA.

The Audit Commission is developing a new approach for the audit of performance indicators. It will enable us to deliver our conclusion on audited bodies' arrangements for 'monitoring and reviewing performance including arrangements to ensure data quality'.

Our approach will comprise three stages:

- Review of the overall management arrangements to secure data quality;
- Completeness checks of reported performance information; and
- Data quality spot checks.

The Commission is developing a voluntary Code of Practice on Data Quality. The voluntary Code will set out the systems and processes that a good public body should put in place to assure itself about the robustness of published performance information

Whole of government accounts

The Government is introducing Whole of Government accounts (WGA) in order to produce consolidated accounts for the whole public sector. The Commission is currently discussing the scope of the likely audit work that we will need to complete.

Inspection Work

The Audit Commission are the inspectors of the Authority and in 2006/07 the inspection work will consist of:

- Direction of travel statement - assessment of the Council's progress in achieving continuous improvement;
- Relationship management - liaison with the Authority, auditors, other inspectorates and government departments.

Risk assessment

Planning of our audit

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Our response explains where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

Risk assessment results

The following table summarise the results of our risk assessment of both significant financial and operational risks facing you and our planned response.

As outlined in our introduction, we are using this Plan to update you on the main issues that will impact upon our 2005/06 accounts audit. Therefore, where the identified risks relate to our Accounts Code objective, we have also specified whether these issues are applicable for 2005/06 or 2006/07.

The adoption of ISAs in 2005/06 meant that work previously undertaken as part of our Financial Aspects of Corporate Governance Code objective is now undertaken as part of our audit of the financial statements. In particular, specific procedures will be carried out in respect of fraud and corruption, laws and regulation and going concern/financial standing.

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>CPA Corporate Assessment</p> <p>We understand that the Authority will be subject to an Audit Commission CPA Corporate Assessment at some point during 2006/07 or 2007/08. The Authority will want to ensure that it is fully prepared for this inspection to ensure that it maintains its 4 star "Excellent" status and therefore may wish to think about its preparations for this during 2006/07.</p>	<p>We will conduct our Use of Resources assessment for 2006/07 during the summer and will work with the Authority to share best practice, where available. The Authority is aiming to continually improve in its use of resources.</p>	<p>During 2005/06 we completed our first CPA Use of Resources assessment at the Authority for which the Authority scored well achieving a 3 rating overall. The Audit Commission defines this as "performing well".</p> <p>We have also completed our review of Value for Money (VFM) against the Audit Commission's criteria. This review will inform Part B of our financial statements audit opinion. The timing of Use of Resources work and which scores feed into which year's opinion is under discussion currently, at national level.</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>Capital programme management and high profile capital projects</p> <p>The Authority's capital programme over the next three years is the largest to date and will require careful management to ensure that resources are available when required and projects are delivered on time and to budget.</p> <p>There are also a number of very significant capital projects, including the revised Turner project, which is already attracting significant local and national attention. Any delays in approval in this and any other significant capital project has implications for the Authority's financial position and more widely the Authority's perception in the local community.</p>	<p>We will update our knowledge of the arrangements in place to manage the capital budget as a part of our audit planning. In addition we will work closely with officers in both finance and service directorates to review progress of the capital programme throughout the year.</p> <p>We will review the Authority's position against prudential limits and indicators throughout 2006/07.</p> <p>We will review the major expenditure / borrowing decisions taken in 2006/07 and test the level of borrowing and capital expenditure during our audit of the 2006/07 financial statements.</p> <p>We will follow up, in conjunction with Internal Audit, on the recommendations raised in Internal Audit and PwC's joint 2005/06 review of Capital Monitoring to review the progress made in implementing these recommendations.</p>	<p>We are undertaking in partnership with Internal Audit a review of Capital Monitoring as part of our 2005/06 Joint Audit and Inspection plan. We will adapt our audit approach, as required, to take into account the findings from this review.</p> <p>We have updated our knowledge of capital monitoring during our planning work for 2005/06 including the Authority's position against prudential limits and indicators. Following detailed testing of significant capital projects during the final audit work May/June 2006, we will make any recommendations for improvements in our Annual Audit Letter.</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>PFI Schemes</p> <p>The Authority is currently involved in several PFI schemes including a significant schools PFI currently under construction, and two operational Integrated Care Homes. It is also in the development phase of a Housing Scheme, leading a partnership with the district councils to support the provision of social housing in Kent.</p> <p>With all PFI schemes there are risks that:</p> <ul style="list-style-type: none"> • The procurement process will not be managed effectively; • The arrangements will not satisfy statutory requirements; • Value for money will not be achieved; • In partnership arrangements, management does not have sufficient influence or has failed to secure sufficient risk transfer; and • Financial standing will be compromised as governance arrangements are not in place. <p>The Authority needs to ensure that it has arrangements in place to review and manage the risks associated with PFI.</p>	<p>We will review the accounting treatment of PFI assets used by the Authority as part of our accounts work in this area. As a part of this review we will meet with key officers to consider whether the governance arrangements are appropriate and the arrangements put in place by the Authority comply with best practice, including ensuring that the performance of each PFI is reported appropriately within the Authority.</p> <p>Where required, in 2006/07, we will use our specialist PFI Team to review the accounting treatment of new PFIs, for example, the Sheltered Housing PFI, as it approaches financial close.</p>	<p>We have met with the PFI team at the Authority and the relevant finance officers in the Directorates to understand the PFI schemes at the development, implementation and operational stages.</p> <p>We will review the internal audit review of PFI arrangements being undertaken in 2005/06 and follow up on any risks identified for the 2005/06 financial statements.</p> <p>We are also liaising with officers on the treatment of assets involved in the Schools PFI which reached financial close in October 2005 to ensure they are appropriately treated in the financial statements.</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>Kent Highways Alliance (KHA) - Strategic Partnership</p> <p>Kent has one of the most heavily used road networks in the country, which makes this an area of importance to many local communities as well as wider users of the network. The new arrangements put in place in 2006 represent a significant partnership arrangement for the Authority and involve three large companies, Ringway, Jacobs and Traffic Signals UK (TSUK).</p> <p>Whilst the Council is familiar with the partner organisations, the new arrangements may present new challenges to ways of working and management of resources if they are to deliver the planned efficiencies. The contracts in place will need to be managed to ensure they are achieving value for money for the taxpayers of Kent.</p> <p>In addition this comes on top of the return, at the start of 2005/06, of highways functions to the Authority after having been previously delivered by district councils for a number of years.</p>	<p>From the perspective of the 2006/07 financial statements, we will be concerned to ensure that costs associated with the KHA contracts are appropriately collected, monitored, accrued and allocated.</p> <p>More broadly, following work already scheduled for 2005/06 additional work may be required which will give us a fuller understanding of the new arrangements.</p> <p>There are a number of different areas of the Highways functions for which the Authority may be interested in requesting a targeted piece of audit work. These include the new Strategic Partnership, the return of Highways functions to the Authority, and more generally the on-going delivery of significant highways projects in Kent.</p> <p>Internal Audit has reviewed a number of specific areas in Highways in 2005/06, including the re-centralised operation of the Highways units. Once this report is finalised this may identify additional risk areas to consider further.</p>	<p>We have met with officers responsible for monitoring the financial position of the re-centralised Highways units.</p> <p>The process of bringing in the staff from the districts and forming the KHA has been more costly than anticipated and has caused an overspend in Highways. The Directorate will have to manage the 2006/07 budget to control future costs in this area.</p> <p>As part of our 2005/06 financial statements audit we plan to review the contracts in place with external contractors to ensure they are appropriately accounted for in the financial statements.</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>The local and national health economy and the emergency services</p> <p>The NHS is once again anticipating a major reconfiguration and it is widely reported in the specialist press that funding will be tight in 2006/07. There are a number of key changes in the Kent and Medway Health Economy that the Authority will have to navigate to ensure the continuity of key services.</p> <p>A key service, the Ambulance Service, is expected to be reconfigured as will another emergency service, Kent Police. The concurrence of these changes to some of the most fundamental services within the county suggests a need to look at the Authority's strategic planning for its liaison with these services and the financial implications for the key areas of greatest interface, such as mental health and social services.</p> <p>There have been a number of publicised problems relating to the national health economy and Kent is not alone in having a number of health Trusts and PCTs forecasting deficits for 2005/06 and 2006/07. The Authority needs to ensure that where services are jointly provided and funded with health, formal agreements are in place to ensure that the financial liabilities of each partner are clearly set out.</p>	<p>We will identify and review, as part of the planning for our 2006/07 financial statements audit, the processes for monitoring the performance and financial position of the key partnerships with the local Health Economy given the significant changes in 2006/07.</p> <p>We will review the level and recoverability of debt due to the Authority from health bodies as part of our work on the financial statements.</p>	<p>No change</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>Partnerships</p> <p>The continuing focus on partnership brings with it many risks that the Authority has sought to manage over previous years. The scale of some of the Authority's partnerships is increasing, making their successful management even more important.</p> <p>The 2006/07 audit is likely to need to focus on several of these areas:</p> <ul style="list-style-type: none"> • Highways Strategic Alliance as described above; • Adult Services partnerships with the local Health economy including pooled budgets for Mental Health and Learning Disabilities; • Environment and Regeneration and other grant funded partnerships with local voluntary and community groups for Community and Regeneration projects; • Children and Young Persons Strategic Partnership and Schools Cluster arrangements. 	<p>We will meet with officers to identify any new partnerships and to discuss the purpose of these partnerships.</p> <p>For the specific partnerships mentioned:</p> <ul style="list-style-type: none"> • We have proposed areas of audit focus for the Highways Partnership above; • We have considered this risk within the wider context of the Health Economy above; • Grant funded partnerships will be audited for the 2005/06 year end and we will ensure the Authority's monitoring arrangements are adequate to meet the funding bodies' requirements as well as mitigating the wider risks to the Authority; and <p>Kent's unique approach to delivering education services has now been in place for couple of years and appears to be delivering significant benefits. Now may be an appropriate time to consider what those benefits have been, whether there are any areas where further benefits can be achieved and how the authority is planning what the next steps for these arrangements might be. As a piece of targeted performance work we could provide an education specialist to undertake a review of the Schools Clusters arrangement.</p>	<p>The audit requirement for the Pooled Budgets in Adult Services was removed in 2004/05 so for 2005/06, we have reviewed the Directorate's budget monitoring arrangements in this area and will audit the Pooled Budget disclosure notes as part of the final audit in May 2006.</p> <p>We have audited a number of grants for 2004/05 where the Authority works in partnership with local Community and Voluntary groups and understand the monitoring arrangements in place. We have made a number of recommendations for improvements in a Grants report to the Director of Finance.</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>Restructuring of the Authority</p> <p>The Authority has gone through a restructuring in 2005/06 leading to the new structure from 1st April 2006. This appears to have been proceeding well. However, there may be some settling in required across the authority as staff move into their new Directorates and roles, and there will be a need to maintain focus on service delivery to ensure the continued delivery of high quality services to Kent's residents.</p> <p>We rely heavily on controls at the Authority and will need to be satisfied that there has been no discontinuity in the important monitoring controls, especially budget monitoring controls.</p>	<p>We have met with officers involved in the restructuring process to understand the implications and how the Authority has controlled the risks.</p> <p>We will ensure the opening balances for each new Directorate and related coding structures have been transferred correctly as part of our planning work for 2006/07. We will also perform work on the budget monitoring procedures in each of the new Directorates, performing further work where we feel the controls have not functioned adequately for the whole year.</p>	<p>N/A</p>
<p>Changes to fundamental IT systems</p> <p>During 2006/07 there are a number of key developments in this area:</p> <ul style="list-style-type: none"> • Social Care (both children's and adults) are implementing a new IT system, SWIFT; • Increasing use of the internet is expected for payments made to the authority in order to provide new and improved means of access for Kent's citizens. It is essential that there are adequate controls in place over the system to ensure that they are operating effectively and are not only providing improved access for citizens, but also delivering efficiency benefits for the Authority; and • The Authority is also using I-PROC, an electronic purchasing system. <p>If appropriate controls are not put in place or are not operating effectively relating to these new systems erroneous transactions may occur that go undetected.</p>	<p>As part of our audit approach we need to obtain assurance that the controls in these systems are adequate and operating effectively to ensure the accuracy of the information feeding into the financial statements. This will include testing the security of the Authority's key financial systems to support our reliance on the controls.</p> <p>We will use our IT audit specialists to ensure that adequate controls are in place for both the implementation of the new SWIFT system and the interface with Authority's other key systems. They will also perform specific work on the risks surrounding the internet payment and e-procurement systems.</p>	<p>No change</p>

Business risks	2006/07 audit approach	Update for 2005/06 Audit Plan
<p>Other areas for consideration:</p> <p>Restructuring of the Statement of Accounts</p> <p>The CIPF/LASAAC Joint Committee has issued proposals for a radical restructuring of the Statement of Accounts, including the introduction of an Income and Expenditure Account and a Statement of Total Recognised Gains and Losses. The proposals also include measures for the conversion of the Fixed Asset Restatement Account into a properly constituted Revaluation Reserve that would require substantial technical input from officers of the Authority.</p> <p>As a result, the form and content of the financial statements for 2006/07 will need to be substantially revised to ensure that they comply with the 2006 SORP, with the risk that misinterpretation of the requirements or mistakes in their implementation would lead to material omissions or misstatements.</p> <p>Whole of Government Accounts</p> <p>HM Treasury has confirmed an intention that local authorities will participate in the preparation of the first published edition of WGA in 2006/07. The Authority will have participated in two dry runs during 2004/05 and 2005/06, which will have tested the accounting and audit arrangements nationally and locally.</p>	<p>During 2006/07 we will review the authority's progress in reconstructing the Statement of Accounts. We can provide support and assistance to the Authority, where required, throughout this process.</p> <p>As part of the 2006/07 financial statements audit we will review in detail the Authority's revised accounts to ensure that they are in accordance with the SORP requirements.</p> <p>We will work with the Authority to address any improvements required in the Authority's arrangements for WGA, following the certification exercise undertaken for the 2005/06 returns.</p> <p>We will certify the Authority's returns for the 2006/07 WGA.</p>	<p>N/a</p> <p>No Change</p>

Our team and independence

Audit Team	Responsibilities
Engagement Leader Janet Eilbeck janet.eilbeck@uk.pwc.com 020 7804 9178 6 th year on the engagement*	Janet is the Engagement Leader responsible for independently delivering the audit in line with the Audit Commission Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Janet is also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manger Mark Stevenson mark.a.stevenson@uk.pwc.co.uk 020 7212 8650 4 th year on the engagement	Mark is the Engagement Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Mark oversees the completion of the Audit Plan, Audit Memorandum and Annual Audit Letter. Mark has overall responsibility for co-ordinating the use of resources audit programme.

Audit Team	Responsibilities
Audit Manager: Accounts Stuart Brown stuart.brown@uk.pwc.com 020 7804 7581 3 rd year on the engagement	Stuart is the Manager on the assignment responsible for managing our accounts and governance work, including the audit on the statement of accounts, and governance aspects of the use of resources work. Stuart has responsibility for completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.
Audit Manager: Pension Fund Accounts Colette Archer colette.archer@uk.pwc.com 020 7212 1606 3 rd year on the engagement	Colette is the manager on the audit responsible for co-ordinating the audit of the Pension Fund accounts including preparing and presenting the separate Pension Fund Audit Plan and Audit Report.

* Janet Eilbeck has applied to extend the normal five year period to six, to cover the period up to formal reappointment or the introduction of new auditors.

Our team members

It is our intention that staff work on the audit for the time allowed by rotation requirements, developing effective relationships and an in depth

understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact on the independence and objectivity of the audit team.

Services provided to the Council

During 2004/05 we carried out a review of the operation of the Authority's Pensions section and made a number of recommendations about the structure and organisation of that section and management information requirements for the effective operation of the function. During 2005/06 we have continued to provide support to the Pensions section through the facilitation of a number of workshops to help the section consider how to implement those recommendations.

Relationships and Investments

Senior officers should not seek or receive personal financial or tax advice from PwC. Members who receive such advice from us (perhaps in connection with employment by a client of the firm) should notify us, so that we can put appropriate conflict management arrangements in place. This includes any member who is a director for another audit or advisory client of the firm.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the members of the Governance and Audit Committee.

Stage of the audit	Output	Date
Audit planning	Audit Plan	June 2006
Audit findings	Internal control issues and recommendations for improvement (if applicable - may form part of the Audit Memorandum)	June 2007
	Value for Money preliminary conclusion for discussion	April 2007
Audit Reports	<p>Audit Memorandum incorporating specific reporting requirements under International Auditing Standard (ISA (UK&I)) 260, including:</p> <ul style="list-style-type: none"> Any expected modifications to the audit report Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust Material weaknesses in the accounting and internal control systems identified as part of the audit Our views about the qualitative aspects of your accounting practices and financial reporting Any other relevant matters of governance interest and Summary of findings from our use of resources audit work to support our value for money conclusion. 	June 2007
	Auditor Use of Resources Assessment to inform the Audit Commission CPA process	November 2006
	Opinion on the Financial Statements and conclusion on the Council's arrangements for its Use of Resources	July 2007
	<p>Other Audit Reports</p> <p>We will report as appropriate on the results of any targeted audit work we carry out.</p>	To be agreed

The Audit Commission will produce a short audit and inspection letter summarising the results of audit and inspection work including the annual assessment to

support the CPA process. This will be sent to the Council and will be available to the public.

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Authorities for the 2006/07 financial year, which depend upon the level of expenditure and assessed risk. In contrast to 2005/06 the fees quoted exclude the cost of the Audit Commission's relationship manager (£5k in 2005/06). Based on your gross expenditure of £1,895m the indicative audit fee range for the Authority is:

	2006/07 £
High Risk	£445,324
Medium Risk	£342,557
Low Risk	£239,790

Due to the risks identified above we categorise the Authority as medium risk.

The following two factors set out by the Audit Commission, in their annual fees paper, have been considered when deciding the level of audit fee for 2006/07:

- The additional work required to meet the new International Standards on Auditing (UK and Ireland) (ISA (UK & I)) has now been assessed. The new ISAs have been determined to create an increase in auditors' mandatory work of 5% and this has now been

built into the fee calculation; and

- Cost pressures of 5% have also been incorporated into the 2006/07 fee calculations offset by a 2.5% efficiency requirement as part of the Gershon agenda.

Therefore, we propose a fee of £378,538. A reconciliation of last year's fee to the proposed 2006/07 fee can be seen in the table below.

	2006/07 £
2005/06 audit and inspection fee	£357,340
Less relationship manager element	£5,211
2005/06 audit fee	£352,129
Add 5% increase for ISAs	£17,606
Add 5% increase for cost pressures	£17,606
Less 2.5% efficiency saving	(£8,803)
2006/07 audit fee	£378,538

Pension Fund

As in 2005/06 a separate audit of the KCC Pension Fund accounts will be conducted in 2006/07. The fee quoted above does not include the costs for this audit. The fee for this work will be confirmed separately in the 2006/07 Pension Fund Audit Plan. The Authority will agree this work through its Superannuation committee.

Relationship Manager

Nationally, for all principal local authorities, the Audit Commission has appointed relationship managers to co-ordinate audit and inspection work, and provides a direct link between the Authority and the Audit Commission. Therefore, the relationship manager is an Audit Commission employee, and your own relationship manager is Stephen Mead.

In practice, the relationship manager and the appointed auditor will work closely together to deliver our audit and inspection work and report the findings of that work to you.

The fee proposed above does not include the fees for the Audit Commission Relationship Manager. This fee is expected to be around £12,000 for 2006/07.

Value for Money and Use of Resources

Our fee for the value for money work includes the following:

- Assessment of the Council against the Use of Resources criteria contained within the Code of Audit Practice;
- Audit of your 2006/07 BVPP;
- Audit of performance indicators included in the 2006/07 BVPP and to support the CPA assessment; and
- Follow up of previous work.

The fee is split between the two code objectives as follows:

- Accounts £253,098
- Use of Resources £125,440

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on any relevant work of inspectors and internal audit in respect of our use of resources conclusion;
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Statement of Internal Control (SIC) being available for us in good time;
- You providing a fully supported and robust self assessment against the use of resources criteria; and
- Our use of resources opinion being unqualified.

If these assumptions prove to be unfounded, we may seek a variation order to the agreed fee, to be discussed in advance with you.

If the Audit Commission specifies further work in relation to the audit of WGA consolidation schedules we will agree additional fees with you.

Due to the demands of Use of Resources there is no scope within the 2006/07 audit fee to undertake a performance study. However, several potential performance studies have been identified that you may wish to us to undertake in addition to the required audit work detailed above.

The potential studies include:

Highways: A review of the new Strategic Highways Partnership mentioned earlier, the return of Highways functions to the County, and more generally the on-going delivery of significant highways projects.

Environmental Policies: Members may be interested in considering how the Authority's Environmental Policy is being taken forward within the organisation and how initiatives are being drawn together corporately.

Pensions Governance: A review of the wider management of the Authority's Pension obligations. This would cover the work of the Super Annuation Committee and the interaction with advisers. This could include a comparison with best practice in both the public and private sectors in this area.

Web based payments and receipts: A review, using our IT specialists, of the system controls in place and how these new systems are working in practice. This could include a review of whether these new systems are achieving the expected benefits and efficiencies and whether best use is being made of the capabilities of the systems.

Schools clusters: - Review of the arrangements to date and whether these arrangements are meeting the desired objectives. This study could also include a review of how the authority is planning to take the schools clusters forward and an assessment of whether there are any examples of best practice elsewhere that the Authority may want to consider when it is looking at the next steps for these arrangements.

Specific actions that Kent County Council can take to reduce the future level of its audit fee

To reduce the future level of its audit fee the Authority we need to

demonstrate that the factors identified above that define the Authority as medium risk have been satisfactorily addressed. The Authority will also need to demonstrate that it has addressed all recommendations raised in reports by us, as its auditors, including:

- ISA 260 Reports;
- Annual Audit Letters; and
- Other Audit Memoranda, including any internal control reports.

In addressing the recommendations raised in these reports the Authority will have improved its internal control environment and in turn this may enable us to place more reliance on this control environment and we can then reduce our audit programme as appropriate.

Certification of grant claims

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates.

Appendix A: Other engagement information

The Audit Commission appoint us as auditors to Kent County Council and the terms of our appointment are governed by:

- The Code of Audit Practice;
- The Standing Guidance for Auditors; and
- The Annual Letter of Guidance.

There are five further matters which are not currently included within the guidance, but our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use. We recognise that systems and procedures cannot guarantee that transmissions will be unaffected by such hazard.

We confirm that we each accept the risks and authorise electronic communications between us. We each agree to use commercially reasonable procedures to check for the most commonly known viruses before sending information electronically. We shall each be responsible for

protecting our own systems and interests for electronic communications and Kent County Council and PwC (in each case including our respective partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission due to electronic communication of information between us and our reliance on such information.

The exclusion of liability in the paragraph above shall not apply to the extent that any liability arises out of acts, omissions or misrepresentations which are in any case criminal, dishonest or fraudulent on the part of our respective partners, employees, agents or servants.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Glyn Barker, Assurance and Business Advisory Services leader for the UK, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of accounts and their publication

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

Freedom of Information Act

In the event that, pursuant to a request which the audited body has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

In the event that, pursuant to a request which Kent County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Kent County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Kent County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Kent County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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By: Director of Finance
To: Governance & Audit Committee – 30 June 2006
Subject: **CODE OF PRACTICE ON CONTRACTS AND TENDERS**
Classification: Unrestricted

Summary: To update tendering levels within the Code of Practice for Contracts and Tenders.

FOR DECISION

INTRODUCTION

1. The Code of Practice for Contracts and Tenders details the financial levels at which competitive procedures are required for the Council's procurements.
2. These levels have not been revised for a number of years and are now generally lower than other local authorities. Other levels were significantly increased in the 2003 revision of Financial Regulations pushing these further out of line. The Code of Practice for Contracts and Tenders is now requiring officers to undertake formal tender processes for relatively low value purchases creating unnecessary administration and delay and causing operational difficulties across the Council.

REVISED LEVELS

3. The amended sections are attached as Appendix 1 with the revisions in essence:
 - increasing the requirement to seek written quotations from £1,000 to £8,000; and
 - increasing the requirement to competitively tender procurements from £20,000 to £50,000.
4. The Code of Practice on Contracts and Tenders is currently being completely rewritten and will be put forward for formal review later this year. As a consequence this report seeks to amend the financial thresholds only.

RECOMMENDATION

5. Members are asked to approve the amendments Sections 4.6 & 5 to the Code of Practice for Contracts and Tenders and the parallel amendments to Appendix 5 of the Council's Constitution.

Clive Greaves
Head of Procurement
Ext 6672

Appendix 1

4.6 Purchasing procedures – financial limits

The following financial limits (exclusive of Value Added Tax) may be varied from time to time by the Council and apply to all purchases except goods and services purchased internally from Commercial Services or other in-house providers, the letting of school based contracts (see [Annex 3](#)) and the other exemptions set out in [section 5](#) below. There must be no attempt to avoid these limits by means of disaggregation.

- More than £8,000 but less than £50,000 – three written quotations must be obtained from appropriate sources
- More than £50,000 – no fewer than three competitive tenders shall be sought. The selection of tenderers is at the discretion of the Strategic Director, or his delegated nominee. This may be by public notice, by invitation to a number of firms on an approved list, or if there is no approved list, invited from firms that the Director considers suitable. If in the event there are circumstances that make it impractical or undesirable to do this (e.g. in the interest of Best Value) then the circumstances must be recorded and reported to the Clerk within 14 working days of the decision being taken for the purpose of notifying Members.
- For the hire of external consultants, where the estimated cost exceeds £20,000, the circumstances must be recorded and reported to the Clerk within 14 working days of the decision being taken for the purpose of notifying Members, prior to the engagement of the consultant.

These amounts relate to the estimated total value of expenditure (excluding VAT) over the period of the contract. Where this is not known, as in the case of a calloff contract, the procedures for 'More than £50,000' should be followed. The sale or purchase of land or property should be referred to KCC Property Group. When the estimated value exceeds the limits set out in [section 4.7](#) of the Code the Strategic Director must ensure that the appropriate notice is placed in the OJEC and that evidence of proof of dispatch of such notice is retained.

5. Tendering policy

Competitive tenders or quotations should normally be sought/obtained as set out in [section 4.6](#) of the Code but there are some exceptions where this is not necessary, as follows:

- where services are currently purchased internally, i.e. from within the County Council. For internal provision, the requirement to obtain at least two other tenders or quotations does not apply. However, directorates may choose to seek alternative tenders/quotations for the purpose of market testing etc;

- urgent works, supplies or services necessary for the immediate protection of life or property, or to maintain the immediate functioning of a public service for which the Council is responsible;
- works, supplies or services which must be undertaken by a public utility, another local authority other than KCC or a similar body in pursuance of its statutory powers;
- works, supplies or services estimated to cost less than £8,000 unless the Strategic Director believes it is in the Council's interest to do so;
- works, supplies or services which fall within an existing term or annual contract (including call-off contracts);
- when the Chief Executive or Strategic Director has decided that special circumstances make it appropriate and beneficial to negotiate with a single firm or that a single tender be invited. This will include occasions when there is only a single source available or where the Chief Executive or Strategic Director can demonstrate that Best Value can otherwise be better achieved. At all times, if the total estimated cost of the contract is more than £50,000 the circumstances must be recorded and reported to the Clerk within 14 working days of the decision being taken for the purpose of notifying Members (the purchasing of adult and children's services required by law under the National Assistance Act 1948 and the Children Act 1989 by Social Services shall be exempt from this requirement. Alternative procedures to be followed shall be set out in the Social Services' OP);
- when a Chief Executive or Strategic Director in consultation with the relevant Cabinet Member decides that it is in the Council's interest to extend the scope of an existing contract to include further works, supplies or services or to extend the duration of a term contract;
- letting of school-based contracts, see [Annex 3](#) for financial limits. The justification for not obtaining competitive tenders or quotations must be recorded in each case.

By: The Chief Internal Auditor

To: Governance and Audit Committee
30 June 2006

Subject: **INTERNAL AUDIT ANNUAL REPORT 2005/06**

Accountable Officer: The Chief Internal Auditor

Classification: Unrestricted

File Ref: AMG/AC/300606

Summary: The Internal Audit Annual Report shows the results of all internal audits carried out during the 2005/2006 financial year. The overall assurance on the level of control within the County Council is provided.

FOR INFORMATION

Introduction

1. Each year the Chief Internal Auditor produces an annual report (a copy is attached for all Members of the Committee), which is distributed to all members of the County Council, the Chief Executive, Managing Directors, Director of Finance and directorates' senior managers.
2. The report contains our overall assurance on the adequacy and effectiveness of governance arrangements, risk management and internal control within the Council. It also contains a summary of work carried out by Internal Audit during the year. The overall opinion is one of the sources of evidence for the Statement of Assurance, which is published with the Authority's annual accounts.
3. The report also includes a summary of Internal Audit's activity and progress against targets for key performance indicators. These indicators, which were agreed by members of the Audit Committee at their meeting on 3 March 2004, are incorporated into our Business Plan, and are monitored regularly to provide an overview of the Section's efficiency and effectiveness.

Audit Assurance for 2005/2006

4. Based on the internal audit review work undertaken, irregularity investigations and any other relevant information, there is *substantial* assurance as to the level of control for the management of financial risk in the Council but *limited* assurance that business objectives are being achieved without incurring risk. The main areas

for improvement identified during 2005/06 included the processes for recruitment of staff in schools, business continuity and disaster recovery planning. Recommendations to improve control of risks identified through internal audit activity have been discussed with, and accepted by relevant managers, and will be followed up by Internal Audit during 2006/07.

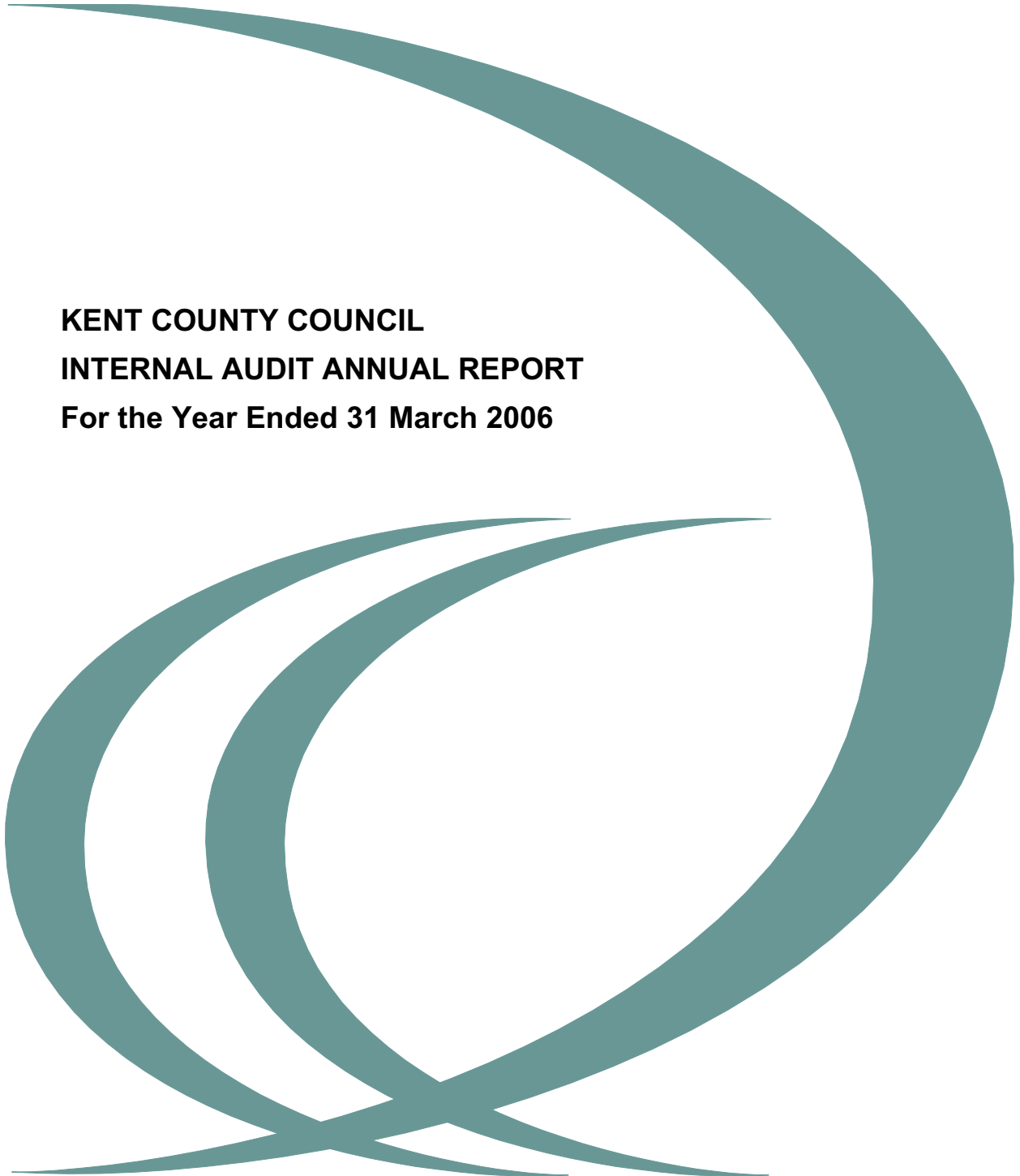
5. In relation to corporate governance and risk management, our overall opinion is that there is *substantial* assurance as to the Council's arrangements.

Recommendation

6. Members are asked to note the outcome of Internal Audit's work for 2005/06 and receive the annual report.

Christine Webster
Chief Internal Auditor
Ext: 4614
21 June 2005

**KENT COUNTY COUNCIL
INTERNAL AUDIT ANNUAL REPORT
For the Year Ended 31 March 2006**



FOREWORD

Over the last year, Internal Audit has played an active role in the development of many processes, which have helped the County Council to respond appropriately to new legislation and initiatives. Not least of these have been contributions towards the restructure of the Council and the 2005 Comprehensive Performance Assessment.

The value of Kent County Council's Governance & Audit Committee, in seeking independent, effective assurance about the adequacy of both financial management and management of other processes required to achieve the Council's service objectives, has been recognised as an example of best practice, in Cipfa's publication *Audit Committees – Practical Guidance for Local Authorities*. The Committee is focused on gaining assurance that the Council's governance, risk management and internal control arrangements are adequate and effective. Therefore, it receives regular internal audit reports culminating in this one, which provides an overall opinion on the robustness of the control framework. Indeed the annual assurance within this report is one of the sources of evidence for the statement of assurance to be published in the annual accounts

Targets for measuring Internal Audit's performance now provide a good basis on which to reflect upon previous activity and performance, build on the Section's many existing strengths, and challenge practices which could be developed further to ensure that Internal Audit achieves the right balance between fulfilling its statutory obligations and providing an economic, efficient and effective service to the organisation.

This annual report reflects upon the outcomes of internal audit activity during 2005/06. It includes:

- an overall opinion on the effectiveness of internal control for 2005/06.
- a summary of irregularities investigated;
- an analysis of audit time by directorate and activity;
- an analysis of Internal Audit performance;
- a summary of audits undertaken and opinions.

If you would like any additional information on this report or the work of Internal Audit, please do not hesitate to contact me.

Christine Webster
Chief Internal Auditor

INTERNAL AUDIT ANNUAL REPORT

For the Year Ended 31 March 2006

The assistance of the Authority's staff and management in providing help and information is gratefully acknowledged.

Report Distribution

This report has been distributed to:-

- All Members of Kent County Council
- Managing Directors and Directorates' Senior Management
- PricewaterhouseCoopers

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Kent County Council Internal Audit Annual Report 2005/06

I. Overview

1. Purpose

The purpose of the Internal Audit Annual Report is to:

- Report on key developments in both the Authority and the local government environment which have impacted upon the work and performance of Internal Audit in the year ended 31 March 2006;
- Highlight key challenges and priorities for the forthcoming year;
- Provide an assurance as to the adequacy and effectiveness of the Council's internal control, risk management and governance processes.
- Provide a review of internal audit activity, showing internal audit's objectives, performance and progress for the year ended 31 March 2006;

2. Key Developments in 2005/06

Comprehensive Performance Assessment

In December 2002, Kent was classified as 'Excellent' in the Audit Commission's assessment of the way in which the Council serves its local people. This classification was maintained in refreshes of the assessment in 2003 and 2004, but for 2005, the CPA got tougher under the new framework, *CPA – the harder test*. There was stronger focus on service users and value for money, and requirements for Councils to meet even higher standards to achieve the same rating. In addition, there was a 'direction of travel' statement, to supplement the single word rating system, to explain the extent to which the Council is improving.

Despite the harder test, the overall rating for the Council was again deemed to be the highest: 4 star, with a 'strongly improving' direction of travel. This is an excellent result. But we cannot afford to be complacent – it is a high standard to maintain, for which good governance, with effective and reliable control mechanisms will be essential factors.

Implementation of internal audit recommendations

An effective internal audit service positively contributes towards the Council's improvement by identifying areas where changes are required and recommending actions to address the potential risks.

Throughout 2005/06, Internal Audit has obtained assurances from managers as to the progress being made with the implementation of actions agreed during the audit process, and reported the outcome to the Governance & Audit Committee. Where sufficient action has not been taken, we have continued to follow up, until we have sufficient assurance that risks have been reduced.

Kent County Council Internal Audit Annual Report 2005/06

Fraud Awareness

In July 2005, Members of Governance & Audit Committee approved an Anti-Fraud Strategy for the Council. This was developed by Internal Audit with the aim of ensuring that policies in respect of fraud, corruption and money laundering, along with the Council's whistle blowing procedure, combined to provide a high standard of guidance to employees in line with best practice. Once approved, we began a programme of raising awareness amongst employees and members. The leaflet '*Fighting Fraud and Corruption within KCC*' was issued in January 2006 after which we launched a program of fraud awareness training to increase the counter-fraud culture throughout the authority. In addition to these new initiatives, the Section continued with other proactive anti-fraud work, through administration of the National Fraud Initiative and issue of bulletins, such as "Irregular Happenings" and mail shots.

Restructure of the Council

In response to legislation requiring Councils to re-organise the way in which Children's services are delivered, the Authority restructured its services with effect from 1 April 2006. Additionally, a decision was made to return the payroll service to in-house provision.

Internal Audit was closely involved with the preparation for these changes; specifically, with the restructuring of the accounts and reorganisation of the payroll service. It is fair to say that both of these transitions were managed extremely well.

Audit Committees

In December 2005, CIPFA published its '*Practical Guidance for Audit Committees in the Public Sector*'. Kent's Internal Audit Section contributed to the content of this publication, with detailed information as to the workings of our Governance & Audit Committee, which is regarded as an example of best practice. Following this publication, I gave a presentation at a CIPFA conference on the subject, and subsequently to Heads of Audit from Kent's district, borough and unitary councils. This gave me additional opportunities to further publicise Kent's experience, and advise others wishing to set up similar arrangements.

My involvement with this at a national level is continuing, as I am a member of a small panel formed to critique an Audit Committee Toolkit that the CIPFA Better Governance Forum is preparing. The idea behind the toolkit is that it should build on and complement the guidance on Audit Committees issued by CIPFA and should give more practical help and examples.

Statement of Accounts

The Accounts & Audit Regulations 2003 require that the Authority's statement of accounts for 2005/06 must have Committee approval by 30 June 2006. Compliance with this deadline has required the Council's financial statements to be prepared one month earlier than last year. To establish the procedure for this, the accounts for the last two years were prepared earlier than previously, with Internal Audit contributing to the process in two ways: we initially provided an assurance, through an audit of year-end transactions, that payments were accounted for in the correct financial year. Subsequently, we acted as a critical friend for Corporate Services' statement of

Kent County Council Internal Audit Annual Report 2005/06

accounts, by questioning elements of the statement in advance of the external auditor's formal review. We have undertaken similar assurance work for the 2005/06 statement.

Improvements in Service Delivery

As the Council strives to improve the way in which its services are delivered, Internal Audit has been proactive in identifying potential risks, and advising on controls that need to be built into new processes to prevent materialisation of these risks.

During the year, we advised on the management of risks relevant to the payroll's transition process and undertook an audit of the general controls necessary for the service, prior to its move from Capita back to KCC. In addition, we continued to advise upon the ongoing Finance Business Solutions program and the Systems Renewal Project for Social Services.

3. Key Challenges and Priorities for the Forthcoming Year

Restructure of KCC's Finance Function

Following the departure of the Strategic Director (Resources) and the transfer of his responsibilities for internal audit to the Director of Finance, a restructure of the finance group has brought together the functions of Internal Audit, Risk Management and Insurance. A new Head of Audit & Risk will be appointed to manage two previously separate Sections and develop a strategic approach to risk management in the Authority. My responsibilities for reporting to members on the adequacy and effectiveness of control within the Council will transfer to this post.

Of course, the strategic direction for Internal Audit in the future will depend upon the vision of the person who is appointed as Head of Audit & Risk. However, the following summarises my view of the key challenges facing the Council in the next year and the potential role of Internal Audit in helping to meet those challenges.

Accounts & Audit Regulations 2006

With effect from 1 April 2006, amendments to the Accounts & Audit Regulations require that an annual review of the Council's system of internal control must be undertaken. The findings of this review must be considered by "a committee or members of the Council meeting as a whole", following which they must approve a Statement on Internal Control. A new requirement will be an annual review of the effectiveness of Internal Audit, the findings of which must be considered, by the same member group, as part of their consideration of the system of internal control.

Current thinking on the best way to review of Internal Audit's effectiveness is that it should be undertaken as a self-assessment, the outcome of which can be independently verified, either by a peer group or an external assessor. Although we are confident that our practices and procedures are of a high standard, we are willing to make improvements if the outcome of this review suggests that any are needed.

Kent County Council Internal Audit Annual Report 2005/06

Comprehensive Performance Assessment (CPA)

Under the overall 'use of resources' category, scores were awarded for each of five 'key lines of enquiry'. A breakdown of the scores shows:

Key line of enquiry	Score (1 – 4)
financial reporting	3
financial standing	4
financial management	3
internal control	3
value for money	3

The challenge will be to maintain and improve upon these scores for the 2006/07 assessment and beyond. This will be especially difficult with some of the key lines of enquiry, especially internal control, given that additional factors have been added to the list of mandatory requirements. Although Internal Audit cannot be held responsible for the implementation of controls, as this would compromise our independence of operational processes, we can do much to encourage control improvements through proactive auditing, raising awareness and assurance work.

Freedoms and Flexibilities, and Towards 2010

Excellent status leads to a significant reduction in the number of statutory plans that the Council is required to submit for approval and a reduction in the number of external inspections. It also opens the door to negotiations with central government over a range of other possible freedoms and flexibilities, including opportunities to influence national debate. There is no doubt that this, and the vision encompassed within Towards 2010, will encourage greater risk taking among Chief Officers and senior managers of the Council. The challenge for Internal Audit associated with this, will be to ensure that risks are taken in the full knowledge of the possible consequences, with the greatest level of mitigating steps in place to limit any potential financial loss or damage to reputation. Our early involvement in new initiatives, and campaigns to raise awareness of risk management will be essential.

Partnerships

An audit of partnerships, undertaken by Internal Audit in conjunction with the Audit Commission during 2005/06, revealed that the Council has in excess of 200 arrangements with other bodies, where the shared aim is to improve services.

Partnership working is very much the way things are done in KCC, and this is another example of good practice for which we have been commended. However, whilst there is much to be gained from a release from the bureaucracy of the normal way of doing things, there is increasing risk of losing accountability, financial mismanagement and fraud. The challenge will be to get the right level of governance in place, commensurate with the risks posed by each partnership arrangement. Internal Audit has already begun to rise to this challenge through facilitation of risk workshops for the Kent Agreement.

Kent County Council Internal Audit Annual Report 2005/06

New Code of Practice for Internal Audit

At the time of writing, consultation on a new Code of Practice for Internal Audit was being undertaken. The new Code should be ready for publication in the Autumn 2006, and is likely to recommend a more risk-focussed approach. We anticipate little change for our Section, as we have undertaken a risk-focussed approach for the last four years, but it will provide a good opportunity to review are practices to check that we continue to operate in line with best practice.

Improvements in Services Delivery:

Value for money review. In recognition of the unique contribution that the Section can make because of its objectiveness and methodologies, the approved audit plan for 2006/07 includes a modest number of reviews to evaluate value for money. In preparation for this, internal auditors were trained in the techniques of value for money auditing during 2005/06. In addition, we will evaluate management's arrangements for securing value for money, wherever it is practical and sensible to do so, as part of our normal review work.

From our own perspective, we will increase the number of audit days that can be achieved for the same cost, by improving our performance in respect of published performance indicators and working with the private sector to deliver the internal audit plan.

Fraud Awareness Training. We will continue to roll out a programme of training sessions to raise awareness of fraud and its control, to both finance and non-finance staff.

Proactive Auditing. With the objective of securing improvements in the Council's internal control framework, Members of the Governance & Audit Committee approved our proposal to introduce a more proactive auditing approach for 2006/07. This will include two main features:

- Significant forewarning to managers of the controls we expect to be in place for audits in the 2006/07 audit plan, giving sufficient time to implement improvements before our testing and evaluation takes place;
- Greater involvement in new initiatives and developing systems, to advise upon control requirements before changes 'go live'. Where appropriate, this will take the form of facilitated risk workshops, aiming to encourage participants to identify, prioritise, own and manage risks that could prevent achievement of their service objectives.

Kent County Council Internal Audit Annual Report 2005/06

II. Internal Audit Assurance

1. Background

The Importance of Internal Control and Risk Management

KCC's objectives, its internal organisation and the environment in which it operates are continually evolving and, as a result, the risks it faces are continually changing. A sound system of internal control therefore depends upon a thorough and regular evaluation of the nature and extent of the risks to which the Council is exposed. The purpose of internal control is to help manage risk appropriately, rather than to eliminate it, and thereby ensure that the Authority effectively and efficiently achieves its objectives.

Responsibilities

It is a management responsibility to develop and maintain the most appropriate internal control framework and to ensure that resources are properly applied in the manner and on the activities intended. The Council has formalised this by requesting all Managing Directors to annually review and report upon the adequacy of controls in their directorates and submit controls assurance statements to the Head of Financial Management.

It is the responsibility of Internal Audit to form an independent opinion, based on audit reviews performed, on the adequacy and effectiveness of the system of internal control and report this to the Governance & Audit Committee.

Statement on Internal Control

Paragraph 4(2) of the Accounts & Audit Regulations 2003 requires the Council to conduct a review at least once a year of the effectiveness of its system of internal control and to include a statement on internal control, prepared in accordance with proper practice, in its annual accounts.

Kent's approach is to produce a combined governance and control statement, which is informed by a review derived from three key components:

- Self-certification statements prepared by all Managing Directors
- A review of financial controls undertaken by the Director of Finance
- The Internal Audit opinion presented within this report

2. 2005/2006 Audit Assurance

Basis of Audit Assurance

The Internal Audit Section has conducted audits in accordance with auditing standards contained within the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, which have been accepted by Members of the Governance & Audit Committee as the standard to which the Section works and

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against which performance is evaluated. Audits were planned and performed so as to obtain all the information and explanations considered necessary to gain assurance as to the level of control within the Authority.

Audit Assurance (defined assurances are denoted in italics and detailed in Appendix B):

INTERNAL CONTROLS

Based on the audit work undertaken throughout the year, irregularity investigations and any other relevant information, our overall opinion is that there is ***substantial*** assurance as to the level of control for the management of financial risk in the Council. The standard of budgetary control, particularly for the revenue budget, continues to operate at a satisfactory level. The most significant areas requiring improvement were identified with the Authority's payroll processes and with the collection of income, particularly through grant claims.

In respect of operational risk, our opinion is that there is ***limited*** assurance as to the standard of control in place to ensure that business objectives are achieved. The main areas of concern included the recruitment of staff in schools, business continuity and disaster recovery planning, and management of the property portfolio.

CORPORATE GOVERNANCE AND RISK MANAGEMENT

Our overall opinion is that there is ***substantial*** assurance as to the Council's arrangements for Corporate Governance. In relation to risk management, our review of the process to manage high priority risks documented in directorate risk registers, has confirmed that ***substantial*** arrangements have been put in place to ensure that risks have been identified, prioritised and assigned to responsible officers and that appropriate steps have been taken to mitigate the risks.

Recommendations to improve control of risks identified through internal audit activity have been discussed with, and accepted by relevant managers, and will be followed up by Internal Audit during 2006/07. Progress with the implementation of actions agreed by managers for implementation during 2005/06 is summarised in Appendix E. This shows that 87% of all recommendations that should have been implemented by the end of April 2006 had been put in place. For the outstanding actions, further implementation dates have been agreed.

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III. Irregularities

The Authority's Financial Regulations require managers to report all suspected irregularities to Internal Audit. During 2005/06, 27 instances of irregular activity were reported and investigated either wholly or in part by the Section. These are summarised below by directorate. The financial loss to the County Council was potentially £290,247, of which £43,000 has been recovered so far.

Directorate	KCC Resource	Non-KCC Resource	2005/06 Reported Irregularities	2004/05 Reported Irregularities
Education & Libraries (E&L)	9	1	10	8
Social Services (SS)	7	2	9	14
Strategic Planning (SP)	0	0	0	3
Corporate Services (CS)	8	0	8	10
KCC wide	0		0	0
Total	24	3	27	35

The number of reported cases has decreased since last year and there has been a corresponding decrease in the amount of time spent on investigations. The number of cases of e-mail and internet misuse has reduced, although these are still the most common type of irregularity reported, for which Internal Audit has provided evidence of misuse to support the disciplinary process. Nine members of staff have been suspended in total, of which three chose to resign, and one was issued with a warning. Four cases have been referred to the police. Analysis of the types of incidences reported for each directorate is shown in the following table.

Type of incident reported	E&L	SS	SP	CS	Total	2004/05 total
Theft of equipment/assets				1	1	4
Theft/misappropriation of KCC monies	2	2			4	8
Theft of clients'/other organisations monies	1	2			3	0
Abuse of e-mail/Internet facilities	4	1		2	7	10
Misuse of assets				1	1	4
Victim of external fraud					0	1
Inappropriate staff appointments				1	1	0
Allegations of financial mismanagement or misconduct	2	2		2	6	2
Overtime/expense claims		2		1	3	3
Conflicts of interest	1				1	2
Other						1
Total	10	9		8	27	35

All notified irregularities are recorded on a database from which it is possible to analyse the control failures that have occurred. This information is in our assessment of relative risk in the process of preparing the annual audit plan. Eight of the above cases were perpetrated because of weaknesses in control systems.

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IV. Internal Audit Activity

1. Mission Statement

Internal Audit's mission is to support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively. Our purpose, authority and responsibility are defined within the Internal Audit charter attached at Appendix A.

2. Our Services

Our primary objective is to satisfy Kent County Council's statutory duty under the Accounts & Audit Regulations - to maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices. By examining and providing independent assurance about the processes and other measures instituted by managers to control both financial and operational risk, we contribute to the corporate governance of KCC. In so doing, we play a part in achieving the strategic aims of the Authority.

In recognition of the statutory requirement and in accordance with the Code of Practice for Internal Auditing in Local Government in the United Kingdom (CIPFA 2003) the Governance & Audit Committee has resolved that it is the responsibility of Internal Audit to review, appraise and report upon:

- the soundness, adequacy and application of financial and other management controls
- the extent of compliance with, relevance and financial effect of, established policies, plans and procedures
- the extent to which the organisation's assets and interests are accounted for and safeguarded from losses of all kinds arising from:
 - fraud and other offences
 - waste, extravagance and inefficient administration, poor value for money and other causes
- the suitability and reliability of financial and other management data developed within the organisation.

To fulfil our responsibilities, the main services provided are:

- **risk-based audit reviews**, targeting audit resources to the testing of financial and operational processes in accordance with the risk to which they expose the Council, and offering advice as to the mitigation of any risks identified;
- **ICT audit**, delivering reviews of the specialist control environment for the Council's hardware, software and network;
- **Investigation of irregularities**, providing discreet enquiries into cases of actual or alleged cases of fraud or corruption, including liaison with the Police and other investigatory bodies;
- **Provision of advice** on internal control and the management of risk

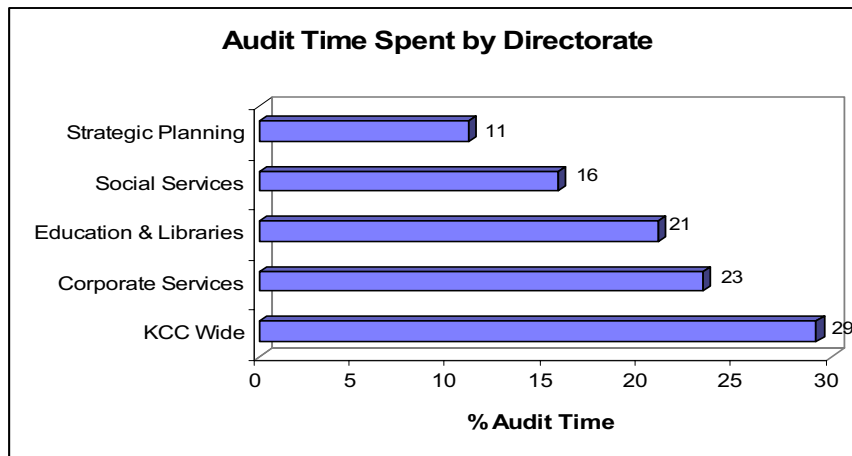
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- **Reporting** of assurances and advice to KCC clients, culminating in this report to Governance & Audit Committee, to provide an overall opinion as to the adequacy of the control environment within the County Council.

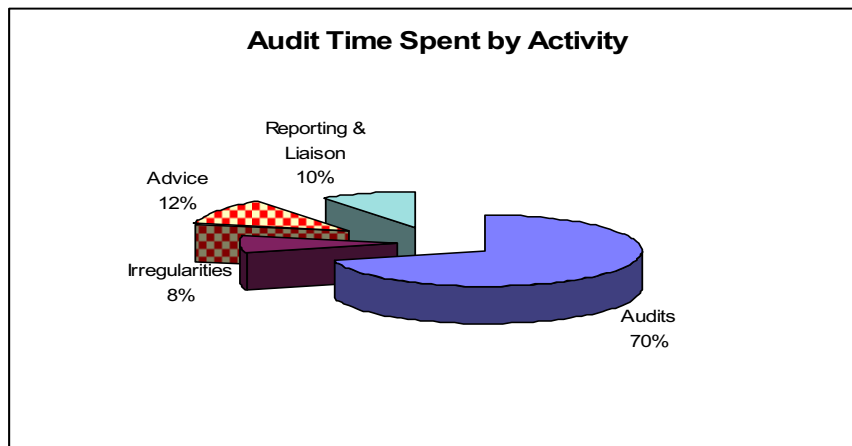
3. Time spent by Directorate and Activity

In 2005/2006 the Internal Audit section spent 81% of total available time in providing audit services. This exceeded our target of 75%, and represents a modest improvement on the outcome for 2004/05 which achieved 80%.

Although the Section carried out fee based work for external clients including the Kent Fire & Rescue Service, this report analyses the services provided to our primary client, Kent County Council. An analysis of time spent on services for different directorates is shown in the following graph:



The time spent on Authority wide activities increased to 29%, from 19% in 2004/05, at the expense, mainly, of time spent on Corporate Services which reduced from 32%. An analysis of time spent on different types of audit work is shown in the following graph:



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Time spent investigating irregularities decreased from 12% to 8%, allowing more time to be spent giving advice and undertaking programmed audits, both of which increased by 2%. A summary of all the audits reported during the year is given in Appendices D and E to this report.

5. Internal Audit Performance

Performance indicators to facilitate monitoring of the Internal Audit Section's efficiency and effectiveness were agreed by members of the Audit Committee at their meeting on 3 March 2004. These indicators are incorporated into the Section's business plan and are monitored regularly. The outturn for 2005/06 is shown below:

PERFORMANCE INDICATOR	TARGET	OUTTURN
<u>Productivity and Efficiency</u>		
Delivery of audits:		
• Available time spent on direct audit work	75%	81%
• Audits delivered within budgeted days	89%	74%
• Planned audits delivered	90%	75%
Delivery date:		
• Draft reports completed within 15 days of finishing fieldwork	89%	94%
Overall service:		
• Preparation of the annual audit plan	• By March	Reported: • 1.3.06
• Periodic reports on progress	• To all Committee meetings	• July, Sept, Dec, March
• Preparation of annual internal audit report	• To coincide with assurance statement	• 30.7.06
<u>Cost Effectiveness</u>		
Benchmark cost against similar local authorities:		
• Cost per £m gross turnover	• £640 (average)	• £317
• Cost per auditor	• £45,600 (av)	• £54,040
• Cost per audit day	• £289 (average)	• £359
Delivery of service within budget:		
Internal Audit budget actually spent	100% by year end	82%
<u>Quality of service</u>		
Feedback from client questionnaires:		
• Questions responded to positively	93%	93%
Feedback from External Auditors:		
• External Audit place reliance on the work of Internal Audit	Positive External Audit report	Positive report from PwC
<u>Staff Management</u>		
• permanent staff in post	94%	84%
• staff with relevant qualifications	60%	79%

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Productivity and Efficiency

It is encouraging to note that many targets have been exceeded, and represent improvements on our performance for 2004/05, particularly:

- 81% of audit time was spent on direct audit work (80% in 2004/05),
- 94% of draft reports were issued within 15 days of completing audit fieldwork (68% in 2004/05).

Targets for delivery of the audit plan and achieving audits within budget have not been met, although performance on the latter increased since 2004/05 (from 72% to 74%). Explanations for these are as follows:

- The Section operated with only 84% of its full establishment throughout the year. Although casual and agency staff were used to fill much of the gap, providing an extra 186 days by the end of the year, this action brought with it some significant unforeseen management problems, and was not enough to enable delivery of the agreed plan;
- The audit plan for 2005/06 included an estimate of 80 days for investigating potential irregularities. By the end of the year, 168 days had been required for this;
- Many audits were delayed during the year at the request of managers who had competing pressures on their time, which had a knock-on impact on the scheduling of replacement audits;
- Although we achieved only 76% of audits within their budgeted days, indicating that 24% of audits overspent their budgets, the underspent budgets compensated for the overspent ones, with the effect that the overall budget for all completed audits was underspent by approximately 10%.

Cost Effectiveness

Kent Audit is a member of the CIPFA/IPF Audit Benchmarking Club. Through this, information about our costs and productivity is compared against other county councils in our group, including Essex, Hampshire, Hertfordshire, Lancashire, Norfolk, Nottinghamshire, Staffordshire and Surrey. The figures for 2005/06 were not available from IPF at the time of writing this report, however cost and time analysis information for 2004/05 produced the following statistics (previous year's data is shown in brackets):

	Kent	Average	Lowest	Highest
Cost per £m gross turnover	£317 (£399)	£602 (£640)	£317 (£399)	£740 (£850)
Cost per auditor:	£54,040 (£49,710)	£45,600 (£44,387)	£35,000 (£38,000)	£62,500 (£54,000)
Cost per audit day:	£359 (£326)	£289 (£268)	£190 (£210)	£370 (£326)
Audit days per Auditor:	165 (161)	161 (169)	125 (150)	184 (190)

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Kent spends significantly less per £m gross turnover on its audit service than other, similar county councils, indeed it spends the least, but pays more than average per auditor. The high costs per auditor and per audit day are the result of higher than average salaries and overhead costs. The number of audit days per auditor has improved since last year and is now above average.

Quality of service

Following the issue of each final audit report, managers are invited to express their views on the way in which the audit was conducted. Responses are regularly reviewed and used to reconsider working practices and address skill gaps. The responses for the year have been collated, and in 2005/06 the overall level of satisfaction was 93%. Comparison with previous years is shown in the following table:

Year	Customer Satisfaction
2001/2002	93%
2002/2003	94%
2003/2004	93%
2004/2005	92%
2005/2006	93%

The overall level of satisfaction improved upon that of last year, with responses to specific questions producing the following statistics (last year's results are shown in brackets):

- **94% (100%) considered the audit was worthwhile and added value to their work.**
- **76% (83%) felt that the recommendations helped to solve the control weaknesses and manage the risks identified in the audit.**
- **100% (100%) felt that the audit was conducted in a professional and courteous manner.**

External Audit view of Internal Audit

Internal Audit is subject to continuous assessment and examination each year by PricewaterhouseCoopers (PwC). For the sixteenth consecutive year PwC expressed their confidence in the Section and stated that they have placed reliance upon the work carried out by the Section in their audit of the Authority's financial statements and performance. PwC's ability to rely on the work of Internal Audit contributes towards a reduction in the number of days charged by the External Auditors to the Authority.

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V. Introduction to Appendices

Appendix A Internal Audit Charter

Appendix B Definitions of Audit Assurance Levels

Appendix C Analysis of Audit Assurances

An analysis of the audit opinions provided for each audit conducted during 2005/2006, within each directorate, expressed according to the type of risk addressed and, for financial risk, the Financial Control Framework category.

Appendix D Summary of audit assurances by directorate and risk category

A summary of the audit opinions provided to directorates during 2005/2006, expressed against the type of risk addressed and, for financial risk, the Financial Control Framework category.

Appendix E Summary of Progress with Implementation of Audit Recommendations

A summary of assurances provided by managers as to the implementation of action to address risks identified in audit reports by dates agreed during the audits. Recommendations due to be implemented by April 2006 from all audits undertaken since April 2004 have been followed up.

Appendix F Internal Audit Contacts

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Appendix A

Internal Audit Charter

Introduction:

This Charter formally defines the purpose, authority and responsibility of Internal Audit within Kent County Council.

Purpose:

Internal Audit is an assurance function that primarily provides an independent and objective assurance to the organisation on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. *Source: CIPFA Code of Practice for Internal Audit in Local Government in the UK (2003).*

KCC Internal Audit's mission statement is:

To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives and manage their risks effectively.

Authority:

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control' is contained in the Accounts and Audit Regulations 2003 (amended in 2006). This supplements the requirements of Section 151 of the Local Government Act 1972 for the Authority 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 Director of Finance.

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 audit recommendations or accept the risk resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to

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the Governance & Audit Committee if it is felt that the risk should not (or need not) be borne.

Professional Standards:

KCC Internal Audit's activity will conform to standards and guidance contained in CIPFA's "Code of Practice for Internal Audit in Local Government in the UK" (2003). This is structured around ten organisational and operational standards, including minimum standards for the performance and conduct of internal auditors.

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.

The Chief Internal Auditor (CIA) will have free and unrestricted access, and freedom to report in her own name, to the Director of Finance and Chairman of the Governance & Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities (in consultation with management) based on an evaluation of risk. This will form the strategic and annual audit plans. The audit plan will be flexible enough to accommodate the needs of senior management and members depending on the relative significance of emerging risks. Members of the Governance & Audit Committee will approve the plan and at each of its meetings receive reports summarising significant findings of audit work undertaken.

Objectivity will be preserved by ensuring that all members of audit staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit.

Audit Scope:

Internal Audit activity will be undertaken to provide assurance to the Director of Finance and Governance & Audit Committee as to the adequacy and effectiveness of the Council's systems for corporate governance, risk management and internal control. It will include:

- Reviewing the soundness, adequacy and application of financial and other management controls
- Reviewing the extent of compliance with, relevance and financial effect and 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

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- Reviewing the suitability and reliability of financial and other management data developed within the organisation
- Raising 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;

Internal Audit is not relieved of its responsibilities in areas of the Authority'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 CIA will provide an annual audit assurance as to the adequacy of the Council's internal controls and risk management processes. This will be used to support the Statement on Internal Control.

Right of Access:

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, records (documentary and electronic), assets and premises, deemed necessary in the course of its duties.

June 2006

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Appendix B

Definitions of Audit Assurance Levels

ASSURANCE LEVEL	SUMMARY DESCRIPTION	DETAILED DEFINITION
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	Improvements in controls or the application of controls required.	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation. This is because, key controls exist but they are not applied, Or there is significant evidence that they are not applied consistently and effectively.
Minimal	Urgent improvements in controls or the application of controls required.	The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control, Or there is evidence that there is significant non-compliance with key controls.

Analysis of Audit Assurances

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK						OPERATIONAL RISK					
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems		
	Authority-wide														
Sep 05	2004/05 audits b/fwd														
Sep 05	Identification of Income Due	✓	S				S								
Sep 05	Performance Indicators	✓	S										S		
Sep 05	Audits from 2005/06 Plan														
Sep 05	Statement of Internal Control	✓	S										S		
Sep 05	Change Management	✓	S												S
Mar 06	Anti Virus Policies and Measures	✓	L												L
Mar 06	Data Protection Follow Up	✓	S										S		
Mar 06	Disaster Recovery Plans	✓	M											M	
June 06	Mobile Phones	✓	L									L			
June 06	Firewalls, Internet & E mail Monitoring	✓	S												
June 06	Corporate Governance	✓	H											H	

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

S = Substantial

L = Limited

M = Minimal

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK				
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems		
	Corporate Services														
	Audits from 2005/06 Plan														
Sep 05	Year-end Payments 2004/5	✓	S							S					
Dec 05	e-Government and ISG Project Management Offices	✓	L								L			L	
Dec 05	Goldman Sachs Asset Management	✓	S								S			S	
Dec 05	Commercial Services – Transport Engineering Income	✓	L					L							L
Dec 05	Commercial Services – Inventory/Stock Control	✓	S								S			S	
Dec 05	Kent Community Equipment	✓	L									L		L	
June 06	Accounts Payable 2005/06	✓	S							S					
June 06	Payroll 2005/06	✓	L												
June 06	Finance Business Solutions Programme Management	✓	S												
June 06	Technology Refresh programme	✓	S												
June 06	The Delivery of the Schools' Capital Modernisation Programme	✓	L												

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

S = Substantial

L = Limited

M = Minimal

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK				
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems		
June 06	Purchase cards	✓	S			S									
June 06	Commercial Services – Kent Web Shop	✓	L												L
	Education & Libraries														
	2004/05 audits b/fwd														
Sep 05	The Education Management System	✓	L												L
Dec 05	AEN Home to School Transport	✓	L				L							L	
	Audits from 2005/06 Plan														
June 06	IMPULSE Admissions & Transport system	✓	L												
June 06	Recruitment & Retention	✓	S											S	
June 06	Procurement of Supplies and Services in Schools	✓	L								L				
June 06	Grouped Schools PFI project	✓	S									S			
June 06	Deficits and Compliance Team	✓	S									S			

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

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M = Minimal

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK						OPERATIONAL RISK				
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems	
	Social Services													
	2004/05 audits b/fwd													
Sep 05	Asylum Seekers Cash handling	✓	H					H						
Sep 05	Farrow Court Post Implementation Review	✓	H										H	
	Audits from 2005/06 Plan													
Sep 05	Ashford DOS	✓	S	S			S							L
Dec 05	Asylum Seekers Payments to Providers	✓	S		S									
Dec 05	Domiciliary Care	✓	L					L						
Mar 06	Thanet DOS	✓	M	M				M						
June 06	Payments to the P & V sector	✓	H		H									
June 06	Supporting People Contract Monitoring	✓	H								H			
June 06	Leaving Care	✓	S							S				
June 06	Better Homes, Active Lives PFI project	✓	S											
June 06	Finance Standards Team	✓	S									S		

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

S = Substantial

L = Limited

M = Minimal

Reported	Directorate	Planned Audit	Overall Opinion	FINANCIAL RISK							OPERATIONAL RISK				
				Budget Management	Payroll	Payments To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Management	Corporate Governance & Legal	Business Processes	Information Systems		
	Strategic Planning														
	2004/05 audits b/fwd														
Jul 05	Highways, Minor Works & Winter Maintenance Contracts	✓	S		S								S		
Jul 05	Safety Camera Partnership	✓	S			S								S	
Jul 05	Babtie Commissioning Process		S											S	
Sep 05	New Roads and Street Works Act System	✓	L												L
	Audits from 2005/06 Plan														
Sep 05	Registrars' Income	✓	S				S								
Dec 05	Implementation of the Electoral system	✓	M												M
Mar 06	Kent Scientific Services	✓	L										L		
Mar 06	ODPM Funded Delivery Boards	✓	S										S		
Mar 06	Midas Follow Up	✓	S												S
June 06	Trading Standards – Finance Review	✓	S		S					S					
June 06	Landfill Tax Payments	✓	L			L									

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

S = Substantial

L = Limited

M = Minimal

Summary of Audit Assurances - by Directorate and Risk Category

Directorate	FINANCIAL RISK					OPERATIONAL RISK					
	Budget Management	Payroll	Expenditure	Income	Banking & Cash Handling	Accounting Systems & Processes	General Financial Control	Resource Management	Governance & Legal	Business systems	Information Systems
Authority wide	S	L	L	S	S	S	S	L	S	L	L
Education & Libraries	L		L	M			S	S	S	M	L
Social Services	S		S	S	H		S	S	L	S	
Corporate Services	S		S	L	S	S	S	S		L	S
Strategic Planning	S		L	S			S			S	S
OVERALL	S	L	S	L	S	S	S	S	S	L	L
2004/2005 OVERALL	S	S	S	S	S	S	A (=L)	A (=L)	S	S	A (=L)

KEY - AUDIT ASSURANCES:
Assurances for key systems shown in bold

H = High

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Appendix E

Summary of Progress with the Implementation of Audit Recommendations

Directorate	Total actions due to be implemented by end of April 2006	Actions in place	Priority of Outstanding Actions at May 2006		
			Very High	High	Medium
Authority Wide	90	72	7	8	3
Corporate Services	69	61	2	4	2
Education & Libraries	32	28	3	1	0
Social Services	66	62	0	3	1
Strategic Planning	57	50	1	6	0
Total	314	273	13	22	6

Internal Audit Contacts

Responsibility	Audit Management	Other Contacts	
The County Council, Financial Irregularities	Christine Webster Chief Internal Auditor ☎ 4614	Janet Armstrong Audit Manager ☎ 4567	
Education & Libraries (now Children, Families & Education)	Janet Armstrong Audit Manager ☎ 4567	Ann Mannell Assistant Audit Manager ☎ 4664	Siobhan Cheeseman Auditor ☎ 4548 Leena Badiani Auditor ☎ 4548
Social Services (now Adult Services)	Janet Armstrong Audit Manager ☎ 4567	Julie Samson Assistant Audit Manager ☎ 4569	Sangeeta Surana Senior Auditor ☎ 4544 Patience Ogunbona Auditor ☎ 4584
Strategic Planning (now Environment & Regeneration)	Janet Armstrong Audit Manager ☎ 4567	June Lamb Assistant Audit Manager ☎ 4695	Hazel Goodwin Auditor ☎ 4695 Ron Herivel Auditor ☎ 4695
Corporate Services (now Chief Executive's Department)	Christine Webster Chief Internal Auditor ☎ 4614	Julie Samson Assistant Audit Manager ☎ 4569	Peggy Colwell Assistant Audit Manager ☎ 4576
Computer Security	Christine Webster Chief Internal Auditor ☎ 4614	Tony Cordina Assistant Audit Manager ☎ 4694	
General Enquiries	Suja Koreira Business Support Assistant Audit Help Desk ☎ 4636		

Item No: 9

By: The Chief Internal Auditor

To: Governance and Audit Committee
30 June 2006

Subject: **INTERNAL AUDIT REPORTING**

Accountable Officer: Chief Internal Auditor

Classification: Unrestricted

File Ref: AMG/AC/300606

Summary: A report on the outcomes of Internal Audit activity, providing assurance as to the operation of control within the Council.

FOR INFORMATION

Introduction

1. This report contains the outcome of Internal Audit's work completed between January and May 2006. Assurances are provided on the outcome of our work in accordance with the definitions of Internal Audit assurance levels shown in Annex A.
2. The format of this report, which was agreed at a previous meeting, is as follows:

Annex B Agreed Audit Programme and Progress to date. Audits appearing for the first time are shown in bold. The table below lists all audits completed in this period.

Directorate	Audit Title	Assurance
AW	The Use of Mobile Telephones	Limited
AW	Firewalls, Internet & E Mail Monitoring	Substantial
AW	Corporate Governance	High
CED	Accounts Payable	Substantial
CED	Payroll 2005/06	Limited
CED	Finance Business Solutions Programme Management	Substantial
CED	Technology Refresh Programme	Substantial
CED	The Delivery of the Schools' Capital Programme	Limited
CED	Purchase Cards	Substantial
CED	Commercial Services: Kent Web Shop	Limited
CF&E	IMPULSE Admissions & Transport System	Limited
CF&E	Leaving Care	Substantial
CF&E	Recruitment & Retention	Substantial
CF&E	Procurement of Supplies and Services in Schools	Limited

Directorate	Audit Title	Assurance
CF&E	The Schools' Deficits & Compliance Team	Substantial
CF&E	Grouped Schools PFI project	Substantial
AS	Payments to the P&V Sector	High
AS	Supporting People Contract Monitoring	High
AS	Review of the Finance Standards Team	Substantial
AS	Better Homes, Active Lives PFI	Substantial
E&R	Shorne Country Park	N/A
E&R	Landfill Tax Payments	Limited
CD	Trading Standards Finance Review	Substantial

Annex C Summary information with the relevant directorate's response for the following audits: -

- where assurance is assessed as 'minimal'
- where assurance for key systems is assessed as 'limited'.

Annex D Brief details of all other audit work completed in the period.

Annex E Summary of directorates' progress with the implementation of internal audit recommendations.

Annex F Progress with directorates' implementation of audit recommendations.

3. Members should note that the audit assurance expressed is at the time of issue of the audit report but before full implementation of the agreed management action plan. Directorates' progress with the implementation of recommendations is followed up and reported at Annex F, after the date by it has been agreed that action will be undertaken. Where a "minimal" assurance has been given, there will be further re-evaluation in a six-monthly review.
4. Furthermore, each audit does not carry equal weight when forming the overall opinion on the operation of control within the Authority. Whilst the key systems will have a major impact, other systems, for example establishment audits, become more significant when the outcomes of a number of similar audits have been obtained. In this instance, the key indicator is the trend in audit assurances within a directorate and across the Authority.

Irregularities

5. Since February 2005, five cases of suspected irregularity have been reported all involving either KCC finances or business processes. Details of completed irregularity investigations are given in my separate report, Agenda Item No 11.

Performance of Internal Audit

6. At the Audit Committee meeting on 3 March 2004, Members agreed to receive regular reports on Internal Audit's performance against a range of indicators. For those measures where information is available, performance is shown below:

Performance Indicator	Target	Actual (Apr – May)
<p><u>Productivity and Efficiency</u></p> <ul style="list-style-type: none"> • % of available time spent on direct audit work • % of audits delivered within budgeted days • % of draft reports completed within 15 days of finishing fieldwork • Preparation of annual plan • Periodic reports on progress • Preparation of annual report 	<p>75%</p> <p>89%</p> <p>89%</p> <p>By March Audit Cttee meetings Prior to annual assurance statement</p>	<p>79%</p> <p>85%</p> <p>82%</p> <p>Reported 1.3.06 Reported: 30.06.06 Reported 30.06.06</p>
<p><u>Cost Effectiveness</u></p> <p>Delivery of service within budget:</p> <ul style="list-style-type: none"> • % of budget spent 	<p>100% by year end</p>	<p>100% by year end</p>
<p><u>Quality of Service</u></p> <ul style="list-style-type: none"> • Client satisfaction questionnaires responded to positively 	<p>93%</p>	<p>91%</p>
<p><u>Staff Management</u></p> <ul style="list-style-type: none"> • Permanent staff in post • Staff with professional qualifications (including trainees) 	<p>75% of establishment</p> <p>60%</p>	<p>97%</p> <p>79%</p>

Recommendation

7. Members are asked to note the outcome of Internal Audit's work and receive the report.

Christine Webster
Chief Internal Auditor

Ext: 4614
21 June 2006

Definitions of Internal Audit Assurance Levels

Assurance Level	Summary description	Detailed definition
High	Strong controls in place and complied with.	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	Controls in place but improvements beneficial.	There is some limited exposure to risk of error, loss, fraud, impropriety or damage to reputation, which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application.
Limited	Improvements in controls or the application of controls required.	<p>The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review e.g., error, loss, fraud/impropriety or damage to reputation.</p> <p>This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively.</p>
Minimal	Urgent improvements in controls or the application of controls required.	<p>The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation.</p> <p>This is because key controls do not exist with the absence of at least one critical control, or there is evidence that there is significant non-compliance with key controls.</p>

**Audit Programme and Coverage By Directorate
(February 2006 – May 2006)**

Reported	Directorate	Audit Plan	Overall Opinion	Budget Mngmt	Payroll	Payment To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngmt	General Financial Control	Procuremnt	Governance	Business Process	Info System
	<u>Authority-wide</u>														
	<i>Brought forward from 2005/06 Plan</i>														
Jun 06	The Use of Mobile Telephones	✓	L							L					
Jun 06	Firewalls, Internet & e-mail Monitoring	✓	S												S
June 06	Corporate Governance	✓	H										H		
	<u>Chief Executive's Department</u>														
	<i>Brought forward from 2005/06 Plan</i>														
June 06	Accounts Payable	✓	S			S									
June 06	Payroll 2005/06	✓	L		L										
June 06	Finance Business Solutions Programme Management	✓	S												S
June 06	Technology Refresh Programme	✓	S												S

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KEY - AUDIT ASSURANCES: H = High S = Substantial L = Limited M = Minimal

**Audit Programme and Coverage By Directorate
(February 2006 – May 2006)**

Reported	Directorate	Audit Plan	Overall Opinion	Budget Mngment	Payroll	Payment To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngment	General Financial Control	Procuremnt	Governance	Business Process	Info System
June 06	Delivery of the Schools' Capital Modernisation Programme	✓	L							L					
June 06	Purchase Cards	✓	S			S			S						
June 06	Commercial Services Kent Web Shop	✓	L												L
Page 204 June 06	<u>Children, Families & Education</u> <i>Brought forward from 2005/06 Plan</i>														
	IMPULSE Admissions & Transport System	✓	L												L
June 06	Leaving Care	✓	S	S										S	
June 06	Recruitment & Retention	✓	S											S	
June 06	Procurement of Supplies and Services in Schools	✓	L									L			
June 06	Grouped Schools PFI project	✓	S									S			
June 06	Schools' Deficits and Compliance Team	✓	S								S				

KEY - AUDIT ASSURANCES:

H = High

S = Substantial

L = Limited

M = Minimal

**Audit Programme and Coverage By Directorate
(February 2006 – May 2006)**

Reported	Directorate	Audit Plan	Overall Opinion	Budget Mngment	Payroll	Payment To Creditors	Income	Banking & Cash Handling	Accounting Systems & Processes	Resource Mngment	General Financial Control	Procuremnt	Governance	Business Process	Info System
	Adult Services <i>Brought forward from 2005/06 Plan</i>														
June 06	Payments to the P&V Sector	✓	H			H									
June 06	Supporting People – contract Monitoring	✓	H							H					
June 06	Better Homes, Active Lives PFI	✓	S									S			
June 06	Finance Standards Team	✓	S								S				
	Environment & Regeneration <i>Brought forward from 2005/06 Plan</i>														
June 06	Landfill Tax Payments	✓	L			L									
	Communities Directorate <i>Brought forward from 2005/06 Plan</i>														
June 06	Trading Standards – Finance Review	✓	S								S				

KEY - AUDIT ASSURANCES:

H = High

S = Substantial

L = Limited

M = Minimal

**Assurance Assessed as Minimal or
Key Systems where Control is Assessed as Limited**

Chief Executive's Department

**Payroll 2005/06 (49/06)
Assurance – Limited**

As at 31 July 2005, KCC employed 16,586 staff (excluding schools' staff) the budget for which was approved at £304.3m, including non-delegated schools' funding. Approximately 14,000 pay slips are produced per month.

The Authority's payroll service was transferred to Capita in June 2000 with the signing of a 3-year contract. The contract was extended in June 2003, since when there have been major changes to payroll responsibilities and operating systems, including implementation of Oracle Human Resource and Payroll modules. These changes necessitated major differences in the service required from Capita, who had until then, supplied payroll services with UNIPAY software.

Negotiations with Capita regarding the detailed payroll service specification using Oracle were not successful, and Cabinet made the decision in May 2005 to bring the payroll back in-house after the Capita contract ended on 18th December 2005.

This audit was undertaken in December 2005, before the date of payroll's transfer to in-house provision.

The personnel function within KCC is partly devolved. The main section is Shared Services, which is responsible for the majority of personnel processes relevant to payroll within KCC. There are four other sections that operate separately for Commercial Services, Adult Education, Key Training and Youth & Community.

We confirmed that key controls were in place to varying degrees within the personnel sections and were, in most cases, operating effectively. Procedures were documented in some but not all sections, ranging from notes to full technical procedures for all processes.

Areas for improvement related to the following findings, from which we conclude that there are risks of setting up fictitious employees as well as inaccurate input of permanent and temporary personal and payment data:

- There were inconsistencies between the reports generated and received by each personnel section and also the forms used to capture and process data.
- Two personnel sections did not have a list of authorising officers to enable checking of authorisations. For other sections that held a list, we were concerned that lists were not used effectively, especially for Shared Services where large volumes of documents were processed.
- Set up of new employees and termination of payroll records for leavers was not always supported by all appropriate documentation in personnel sections. We also found examples of temporary payments, including overtime and interim payments, having been processed by Capita, which were not supported, paid on receipt of unauthorised forms or forms with photocopied authorisation.

Assurance Assessed as Minimal or Key Systems where Control is Assessed as Limited

- Checks were not being performed by personnel staff for Youth & Community to ensure the accuracy of data input for new starters or leavers. These checks were undertaken in other personnel sections, although the standards varied and there was some evidence of non-compliance.
- Capita was not performing data accuracy checks due to problems (which had been reported to KCC) relating to the usability of data in Oracle log reports. Therefore, Capita was not checking all permanent data input or any temporary data input.

It has been agreed, as an overall result of the audit, that a review of the whole personnel structure will be performed to ascertain if the segregation of this function is cost effective, efficient and justified in terms of sound business reasons. The concerns with payroll processing are being addressed by the transfer of the service to in-house provision.

Directorate Response:

The main areas for improvement raised in the audit report have been addressed as follows:

- *The review of Personnel structures is on-going (and due for completion by 30 September 2006). In the interim, a monthly meeting of representatives from Shared Services, KEY training, Adult Education and Youth and Community takes place, chaired by a manager from Shared Services and including Payroll staff. This has resulted in a much greater understanding of best practice and correct procedures across the teams involved and the meetings focus on achieving improvements to end-to-end process to minimise errors. The meetings also serve to ensure that there is greater consistency between the reports generated and received by personnel sections and the forms used. Within the Corporate personnel function the decision has been taken to integrate the Shared Services and Payroll teams under a new management role of Employee Service Centre Manager to increase efficiency and consistency and minimise scope for errors. The new manager took up post on 19th June 2006 and the integration of the teams will be completed by the end of the current financial year.*
- *The completion of the authorisation framework has been delayed as the new service directorates decide on their authorisation processes and procedures. This will be completed by the end of June 2006.*
- *The procedures for ensuring that all payments are supported by appropriate documentation have been reinforced in Shared Services and Payroll. The procedure laid down is that all hardcopy claims are checked to ensure a signature of authorisation appears and only original documents are accepted.*
- *The Shared Services Manager reminded all personnel staff of the need to check the accuracy of data input for new starters and leavers. Youth and Community agreed to institute a data check against an internal system to highlight input errors mid month. In addition a system is in place to error-check data that is input into the Oracle system with the check being confirmed with a signature.*

**Assurance Assessed as Minimal or
Key Systems where Control is Assessed as Limited**

- *The in-house payroll manager has now reinstated the reports to check temporary input and absences. Reports on bank changes and status changes/ leavers are produced and checked daily. Any remaining problems with Oracle daily systems are being raised through Incident Reports to the Technical team.*

The Audit report provided valuable information on the payroll function prior to the transfer from Capita to KCC. This has helped the Payroll Manager prioritise changes to be made following the transfer in December 2006. The greater visibility of the work being done by the payroll team has enabled checks and procedures to be tightened up where appropriate and the number of monthly errors has shown a significant reduction. The restructuring of KCC has also facilitated the review of the personnel functions across Directorates. As noted above this review will be completed by the end of September 2006.

*Amanda Beer
Director of Personnel and Development
June 2006*

**Assurance Assessed as Minimal or
Key Systems where Control is Assessed as Limited**

Chief Executive's Department

**Delivery of the Schools' Capital Modernisation Programme (04/06)
Audit Assurance – Limited**

Kent County Council's Education, Standards and Pupil Services 2005/06 capital programme amounted to a value of £207.1m and is managed on behalf of the Children, Families and Education Directorate by the Property Group. The budget is derived from money from Central Government, private funds from developers and the Capital Receipts programme.

Children, Families and Education identify and prioritise the projects which can be funded and instruct the Property Group to manage the projects on their behalf. Regular monitoring takes place between the Property Group, the Director of Resources and the Cabinet Member for Children, Families and Education.

This audit was agreed by the previous Head of Property as part of the Internal Audit programme for 2005/06. It covered the school projects under Basic Needs and Modernisation programmes, which are managed by the Design and Development team on behalf of the Children, Families and Education Directorate. We also looked at the new call-off framework that is in place for the whole Authority, although managed by the Property Group. The objective is to ensure that projects are delivered by the Property Group to agreed standards that provide value for money on behalf of Children, Families and Education.

A further audit is planned that will cover school managed projects.

Based on the risks examined in this audit, there is limited assurance that the projects have been managed within the correct timescales and within budget. The previous Head of Property was already aware of this and had appointed the Design and Development Manager to help improve the service and the management of the projects. During the audit the Design and Development team were involved in the process of changing staff and practices. We expect that the assurance will increase once the new members of staff and new procedures have become more embedded into the Team. Definitions of our assurance levels can be found in Appendix 1.

The Design and Development team within the Property Group has been through a period of change during the past year since the appointment of a new manager. The manager has introduced improved practices which have been adopted and are planned for future work in the section. However, many of the projects examined at the time of the audit had been managed by a previous team and the results of the new improved practices had yet to be realised. We made seven recommendations of which five were for the whole of the Property Group as the procedures were not specifically for the Design and Development team.

The Design and Development Manager felt that inaccurate budget setting from the outset together with old inefficient processes in relation to KCC approvals was a major contributory factor behind higher costs and time delays. Other issues in the Design and Development team related to staff being expected to work in areas where they were either unqualified or had inappropriate experience. New, qualified

**Assurance Assessed as Minimal or
Key Systems where Control is Assessed as Limited**

staff have now been appointed as project managers to ensure better understanding, communication and liaison with consultants, although more detailed work is expected of them. It is hoped that with the new expertise in the section, time delays and budget overruns will be reduced.

The Management Information team in Property Group had introduced an Internal Testing Analysis of all the files to ensure the Project teams were adhering to the new procedures to ensure completeness and accuracy of processes. This whole process, together with all the procedures within the Design and Development team is being revised and is included in the objectives of the team's business plan for 2006.

The new Design and Development manager instigated a framework agreement, which was ratified by members, established since April 2005 and comprises 56 fully vetted property related consultants for contracts with KCC. This list is used to 'call-off' a selection of consultants to choose from. All decisions have to be agreed and signed off by one of the Operational Managers and reasons should be given if the Manager does not use the most economically advantageous to KCC.

Management Information in relation to all projects managed by the Property Group is produced on a monthly basis for the Children, Families and Education Directorate and members. However, the current reports are detailed and unwieldy with too much information to ensure that problem areas are easily identified. Quarterly reports to members by the Design and Development Manager uses the same information but in a different format.

Monthly discussions in relation to budget monitoring and cash flow take place between the Information Manager, Design and Development team, the Education Asset Manager and the Principal Accountant (Capital) from the Children, Families and Education Directorate. The monitors that record all information in relation to each project are being reviewed as part of the Design and Development team's 2006 business plan.

Directorate Response

I am satisfied that the audit is an accurate and complete assessment of the position at the time it was carried out, and accept and endorse the findings made. It is important to recognise the significant improvements that have been made in the past 18 months, during which time a new team manager has been in post. The improvements made in this time were recognised by the audit team. All the actions required by the audit have so far been completed by the due dates. Others are being followed up energetically by the Design and Development Team in collaboration with Directorates where appropriate.

Mike Austerberry
Director of Property

**Assurance Assessed as Minimal or
Key Systems where Control is Assessed as Limited**

Environment & Regeneration

**Landfill Tax Payments (54/06)
Audit Assurance – Limited**

The Waste Management Unit (WMU) undertakes the County Council's statutory responsibilities as the Waste Disposal Authority (WDA) for Kent in accordance with the requirements of the Environmental Protection Act 1990 and other legislation. The 12 districts and borough councils in Kent are responsible for the collections of domestic waste from houses, street cleanings etc. KCC is responsible for arranging and funding disposal of domestic waste and managing the civic amenity sites.

The Government has stated that the standard rate of tax will increase by at least £3 per tonne, from the current £18, to a rate of £35 per tonne by 2010, which provides an incentive for KCC to reduce the volume sent to landfill. The WMU currently has a budget of £46 million of which approximately £10.5 million is paid as landfill tax.

It is anticipated that the Allington "Waste-to-Energy" plant, which should become operational during 2006, will ensure achievement of KCC's target by 2010. Current proposals are to impose penalties of £150 per tonne on WDAs who fail to meet targets to divert biodegradable waste from landfill.

At the time of the audit an underspend within the WMU of approximately £2.7 million was being forecast as less waste, down by approximately 1.5%, was being collected than anticipated.

The business objective of the WMU is to dispose of domestic waste, ensure that recycling and landfill targets for the Authority are met and that invoices submitted by contractors for disposal of waste, including landfill tax payments, are accurate.

We confirmed that controls are in place to identify the types of waste at transfer stations. The WMU monitors reports from landfill sites, against weighbridge tickets issued and local records held to identify waste that has been taken to the transfer stations and then on to the landfill sites. Trade waste that has been incorrectly invoiced to KCC is reported by the WMU to the landfill operators and a credit note requested.

On occasion, waste that had been taken from the transfer station to the landfill site was not included on the landfill operator's invoice to KCC. These inconsistencies were identified by the WMU through their own monitoring processes. We confirmed that although the monitoring took place, some 32 anomalies amounting to approximately £50k had been identified by the WMU but no further action had been taken to inform the landfill operators that invoices had not been received on the loads. We were advised that suitable provision would be made to meet this liability.

To ensure that all vehicles disposing of waste on behalf of KCC are legitimate and only from a domestic source, checks should be made against up-to-date lists of vehicles. It was established in the audit that the vehicle lists held by the WMU were not up-to-date and therefore checking could not be relied upon as accurate.

**Assurance Assessed as Minimal or
Key Systems where Control is Assessed as Limited**

We tested invoices for landfill payments from August to September 2005 for East Kent transfer stations, and confirmed that they had been monitored, corrected where required and appropriate payments made.

A random sample of invoices raised by the landfill operator in West Kent were reviewed. We found that monitoring by the administrative team had identified errors, for example trade waste vehicles included in the invoice that, in most cases, had been corrected. However, although one entry for trade waste had been found on an invoice and identified, no action had been taken to correct the error.

Directorate Response:

The Waste Management Unit agrees the findings of the report and is wholly committed to address the recommendations.

The two issues identified through the audit process and existing control systems, provides a useful focus on the need for continued diligence and prompt action to rectify errors and improve control measures.

Improvements to control measures are being implemented, including better communication with contractors and counterpart officers in other local authorities to prevent a recurrence. Additionally, action has been taken to address the anomalies identified in the audit.

Ongoing compliance with the audit action plan will be monitored through regular management meetings and the quarterly reporting on progress will confirm the effectiveness of interventions. Without wishing to diminish acceptance of the audit recommendations in any way, it is to be expected that despite implementing an action to maintain up to date contractors' vehicle lists, there will be occasions when operational changes, for instance in the event of vehicle break-down, produce non-conformities. These occurrences will be dealt with through pro-active control measures.

*Sue Barton
Head of Waste Management*

**Other Audit Work Completed in the Period, not reported Elsewhere
February 2006 – May 2006**

Completed audits

Directorate	Audit	Description	Audit Assurance
Authority Wide	The Use of Mobile Telephones	Review of the provision, use and monitoring of mobile telephones.	Limited
	Firewalls, Internet & E Mail Monitoring	Review of the policies, practices and procedures to ensure that the security of KCC's network is maintained.	Substantial
	Corporate Governance	Assurance as to the standards by which the Council directs and controls its functions and relates to the community.	
Chief Executives Dept	Accounts Payable	An audit to provide assurance that payments are accurate, timely and made only to valid suppliers for goods and services delivered for the benefit of the Council and its clients.	Substantial
	Better Homes, Active Lives, PFI	A review of the early procurement phase of this PFI project to evaluate the framework of internal control that will safeguard against poor value for money, illegal transactions and failure to observe due process, error and fraud.	Substantial
	Finance Business Solutions	A review of the programme management of the Finance Business Solutions project to December 2005.	Substantial
	Technology Refresh Programme	A review of the management of the Technology Refresh Programme.	Substantial
	Purchase Cards	A review of the controls in place to ensure that applications for purchase cards are properly authorised and used appropriately.	Substantial
	Commercial Services: Kent Web Shop	Review of the security and use of the Kent Web Shop ICT Systems in Commercial Services.	Limited
Children, Families & Education	IMPULSE Admissions & Transport System	A review of the security and integrity of data held within and processed by IMPULSE.	Limited
	Leaving Care	An audit of payments made to and on behalf of young people to ensure that only eligible payments are made, are accurate, timely and properly recorded in the accounts.	Substantial
	Recruitment & Retention	A review of the policies and practises in place to ensure that the right calibre of staff are recruited and retained.	Substantial
	Procurement of Supplies & Services in Schools.	An audit of the effectiveness of KCC schools in managing budgets and achieving value for money in their purchasing of supplies and services.	Limited
	Schools' Deficits & Compliance team	A review of the work of the Schools' Deficits & Compliance Team to determine whether Internal Audit is able to place reliance on their work and include it in the overall assurance on the level of internal control within the Authority.	Substantial
	Grouped Schools PFI project	A review of this PFI project to financial close, to evaluate the framework of internal control that will safeguard against poor value for money, illegal transactions and failure to observe due process, error and fraud.	Substantial
Adult Services	Payments to the P&V Sector	An audit of payments made to P&V providers of residential care to ensure that all payments are accurate and timely.	High
	Supporting People – Contract Monitoring	An audit of the Supporting People Team's review of contracts to providers of housing related services.	High

**Other Audit Work Completed in the Period, not reported Elsewhere
February 2006 – May 2006**

Directorate	Audit	Description	Audit Assurance
Adult Services	The Finance Standards Team	A review of the work of the Team to determine whether Internal Audit is able to place reliance on their work and include it in the overall assurance on the level of internal control within the Authority.	Substantial
Environment & Regeneration	Shorne Woods Country Park Visitor Centre	A review of the Shorne Woods Country Park Visitor Centre project to enable lessons to be learnt for any future projects that might be required.	N/A
Communities Directorate	Trading Standards Finance Review	Review of financial management in Trading Standards	Substantial

Advisory and other work

Directorate	Audit work	Description
Chief Executive's Department	FBS e-Procurement	Advice and information provided to support the e-procurement workstream of the Finance Business Solutions programme.
	Council Restructure	Facilitation of risk identification and management for the restructure of accounting codes in line with the new Council structure.
Adult Services	Direct Payments Pre paid purchase cards	Advice and information provided regarding the provision of pre paid purchase cards for direct payment clients
Adult Services	Client Billing Contingency	Advice and information provided regarding contingency arrangements for billing clients during the implementation of Systems Renewal Project.
Education & Libraries	Purchase Cards	Advice provided as part of the Finance Business Solutions programme
Environment & Regeneration	East Kent Access	Assurance gained that funding for which there had been uncertainty, has been secured from GOSE who have confirmed a grant of £18m.

**Directorates' Progress with Implementation of Recommendations
January to April 2006**

Directorate	Total actions due to be in place by end of April 2006	Actions in place	Outstanding actions (priority)			Comments on outstanding actions	
			VH	H	M	Audit	
Authority wide	43	30		1		Data Protection	Directorate co-ordinators are undertaking trials on training software, aiming for completion by the end of July 2006.
				1	1	Freedom of Information	1. A new database has now been completed and will be used for the logging, tracking and monitoring of all FOIA & EIR requests received from 1/1/06 onwards and should be operational by end of June 2006, 2. Further resource constraints have meant that the evaluation of a training programme has not yet been undertaken, but this should be completed by July 2006.
			4	1		Disaster Recovery Plans	Progress has been made to different extents with the development of Business Impact Analyses for Chief Executive's, Adult Services, Children, Families & Education and Environment & Regeneration directorates, to establish prioritised Business Continuity and Disaster Recovery Plans, and identify associated resource needs. Most directorates anticipate that actions will be completed by December 2006.
			1	1		Payroll 2005	1. Use of standard forms has been delayed due to set up of authorisation lists for the Communities Directorate, but should be in place by June 06. 2. Kent Adult Education Service is undergoing a major restructure, which has delayed action to acknowledge last day of service to leaving staff and Area teams. Copies of correspondence will be sent to line managers instead, by the end of June 2006.
				2	1	Mobile Phones	1. The need to raise awareness of the Council's contract with MoCo for procurement of mobile phones, and to declare purchase of PAYG vouchers to HM Customs and Excise, was discussed at VFM Board, but further action is required. The issues will be referred back to VFM Board again in July 2006. 2. A review of billing is being undertaken, now due to be completed by July 2006, to identify phones with high charges, following which Commercial Services will notify relevant Finance Managers for authorisation to retain their premium rate type calls facility.

**Directorates' Progress with Implementation of Recommendations
January to April 2006**

Directorate	Total actions due to be in place by end of April 2006	Actions in place	Outstanding actions (priority)			Comments on outstanding actions			
			VH	H	M	Audit			
Chief Executive's Department	31	23		1		Project Management Offices (PMOs)	<ol style="list-style-type: none"> 1. Development of processes and procedures in the ISG PMO is still ongoing, but should be completed by the end of July 2006. 2. A charging policy and guidance on the calculation, timing and notification of charges for project development should be circulated to directorates by the end of July 2006. 3. An ICT Ops Board is being developed to co-ordinate, monitor and advise upon all ISG projects from August 2006. 4. The ICT Ops Board will also approve all projects involving IT, whether or not management is within ISG, from August 2006. 		
				1					1
				1					1
Children, Families & Education	13	8		1		Transport Engineering Income	<ol style="list-style-type: none"> 1. Improvements in access security and privileges for the TE income system will be completed by July 2006. 2. Updates to the 'TRACE' customer master file to set up correct VAT flags and inactivate unused or duplicated customer accounts will be completed by July 2006. 		
				1			1		
			2			Web Shop	Progress has been made with the implementation of secure access controls for users and administrative functions of the Web Shop in accordance with BS7799/ISO17799, which will be completed by June 2006.		
Children, Families & Education	13	8	1			IMPULSE – Admissions and transport system	<ol style="list-style-type: none"> 1. Protocols for processing changes to the IMPULSE system in line with ISG's change management procedure will be agreed by June 2006. 2. The strengthening of access controls for administrative functions of the IMPULSE system will be implemented by July 2006. 		
			1			Health and Safety of Property Leaving Care	Standards for replies to schools, etc following corporate H&S audits will be devised when new software is first used, which is expected by December 2006.		
				1		1	<ol style="list-style-type: none"> 1. Consultation regarding attaching finance summaries to 'pathway plans' to record all payments to young people is complete, and will be in operation by June 2006 2. Young people will be required to sign up to the financial summary section of their pathway plans from June 2006. 		

**Directorates' Progress with Implementation of Recommendations
January to April 2006**

Directorate	Total actions due to be in place by end of April 2006	Actions in place	Outstanding actions (priority)			Comments on outstanding actions	
			VH	H	M	Audit	
Adult Services	6	6					
Environment and Regeneration	6	3		1		ODPM Funded Delivery Boards	<ol style="list-style-type: none"> 1. The Swale Forward team has obtained hard copies of KCC's financial policies and procedures but is waiting for an electronic link which is anticipated for September 2006. 2. Updating of Terms of Reference to clarify governance arrangements will be undertaken as part of a wider partnership review which will be completed by October 2006.
				1		Waste Management	Districts' claims are submitted to KCC for payment on a quarterly basis, therefore during September/October spot checks to confirm the validity of the first quarters' claims will be undertaken by the Waste Management Unit.
Communities	19	13	1	3		Election system	<ol style="list-style-type: none"> 1. Three 'High' priority recommendations relevant to new project development are covered by "Project Services Prince 2 documentation and associated templates" procedure which is awaiting approval from Change Advisory Board in June 2006. 2. ISG will obtain Business Units' sign off that data validation is not a business requirement by July 2006.
				1		Safe Recruitment of People working with Children	<ol style="list-style-type: none"> 1. Contract changes are awaited from the Recruitment & Employment Confederation to enable set up of agreements with agencies subcontracting to Kent Top Temps, which will ensure the same standard of checks as required by KCC of KTT, from June 2006. 2. Processes to chase non-return of CRB forms are under review, and proposals for improvement should be implemented by July 2006.
TOTAL	118	83	10	20	5		

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By virtue of paragraph(s) 1, 2, 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 11

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By virtue of paragraph(s) 1, 2, 3, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Agenda Item 12

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