



AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Tuesday, 30th June, 2009, at 10.30 am Ask for: **Andrew Tait**
Darent Room, Sessions House, County Hall, Telephone
Maidstone

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. Terms of Reference and dates of future meetings (Pages 1 - 2)
3. Declarations of Interest for items on the agenda for this meeting
4. Minutes - 4 March 2009 and 25 June 2009 (To Follow) (Pages 3 - 6)
5. Trading Activities Sub-Group (Oral report)
6. Draft Internal Audit Annual Report 2008/09 (Pages 7 - 34)
7. External Audit Progress Report (To Follow)
8. Annual Audit Fee letter 2009/10 (Pages 35 - 40)
9. Annual Inspection Fee letter 2009/10 (Pages 41 - 42)
10. Treasury Management Annual Review (Pages 43 - 60)
11. Annual Audit and Inspection Letter (Pages 61 - 82)
12. Draft Statement of Accounts 2008/09 (including Annual Governance Report) (Pages 83 - 170)
13. Ombudsman Complaints (Pages 171 - 176)
14. Annual Report on surveillance activities carried out by KCC between January and December 2008 (Pages 177 - 190)
15. Strategic Risk Register (Pages 191 - 198)
16. Internal Audit Progress Report (Pages 199 - 236)

17. Other items which the Chairman decides are urgent

EXEMPT ITEMS

(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)

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

Monday, 22 June 2009

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.

By: Head of Democratic Services and Local Leadership
To: Governance and Audit Committee – Tuesday, 30 June 2009
Subject: TERMS OF REFERENCE AND DATES OF FUTURE MEETINGS
Classification Unrestricted

FOR INFORMATION

Terms of Reference

1. The County Council was recommended to agree the Terms of Reference set out below at its meeting on 25 June 2009.

“This Committee has responsibility for:

- (a) monitoring the Council’s compliance with its own published standards and controls and with other standards, and considering any proposals for changes to Financial Regulations and the Code of Practice on Tenders and Contracts;
- (b) liaising with the Audit Commission over the appointment of the Council’s external auditor;
- (c) discussing with the external auditor and Cabinet the basis of the annual audit, including the overall level and composition of the fee and the content of performance work;
- (d) receiving all reports by the external auditor including all performance reports and the Annual Management Letter;
- (e) overseeing the Internal Audit activity of the Council;
- (f) advising the Council on the Annual Plan proposed by the Leader in relation to statutory requirements and guidance; and considering and responding to reports from the external auditor and Best Value Inspectorate;
- (g) monitoring the response of the Cabinet and Council Committees to audit reviews and investigations and the implementation of agreed recommendations;
- (h) overseeing the operation of the Council’s complaints procedures, including the response of the Cabinet or a Council Committee to any report by the local Government Ombudsman;
- (i) approving the annual accounts on behalf of the Council;
- (j) approving the writing-off of debts from the Council’s accounts (except those agreed by the Strategic Director (Resources) as provided for in Financial Regulations;

- (k) monitoring the operation of borrowing and investment policies and Treasury Management activity;
- (l) agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management and monitoring insurance arrangements;
- (m) keeping under review the Council's arrangements for corporate governance and agreeing from time to time necessary actions to ensure compliance with best practice.

Dates of future meetings

2. The following dates have been scheduled in the County Council Diary for meetings of the Committee in 2009 and 2010: -

Wednesday, 16 September 2009
Tuesday, 1 December 2009
Friday, 30 April 2010
Wednesday, 30 June 2010
Tuesday, 30 November 2010

All meetings are scheduled to start at 10.30 am in County Hall, Maidstone.

RECOMMENDATIONS:

2. The Committee is recommended to note its Terms of Reference and the dates of its meetings in 2009 and 2010.

Peter Sass: Head of Democratic Services and Local Leadership

Officer Contact: Andrew Tait
Democratic Services Officer
(01622) 694342

KENT COUNTY COUNCIL**GOVERNANCE AND AUDIT COMMITTEE**

MINUTES of a meeting of the Governance and Audit Committee held in the Darent Room, Sessions House, County Hall, Maidstone on Wednesday, 4 March 2009.

PRESENT: Mr C G Findlay (Chairman), Mr R L H Long, TD (Vice-Chairman), Mr D L Brazier, Mr J Curwood (Substitute) (Substitute for Mr R J Parry), Mrs T Dean, Mr W A Hayton, Mr C Hibberd (Substitute) (Substitute for Mr M V Snelling), Mr J F London, Mrs M Newell, Mr M J Northey (Substitute) (Substitute for Mr A R Chell), Mr D Smyth and Mr R Tolputt

OFFICERS: Ms L McMullan (Director of Finance), Mr P Mulholland (Group Leader, Property and Commercial), Ms J Dawson (Head of Audit and Risk), Mr S Davis (Audit & Risk), Mrs J Armstrong (Senior Audit Manager), Ms A Beer (Director Of Personnel & Development), Ms N Lodemore (Personnel Policy Manager), Mr P Bole (Head Of I C T Commissioning), Mr R Fitzgerald (Performance Monitoring Manager), Ms J Hill (Performance Manager), Mrs D Mattingly (Corporate Risk & Insurance Manager) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells of the Audit Commission.

UNRESTRICTED ITEMS

1. Minutes - 2 December 2008
(Item 3)

RESOLVED that the Minutes of the meeting held on 2 December 2008 are correctly recorded and that they be signed by the Chairman.

2. Internal Audit Progress Report
(Item 4)

RESOLVED that the report be noted.

3. Internal Audit Reporting - Irregularities
(Item 5)

RESOLVED that the report be noted.

4. 2009/10 Internal Audit Plan
(Item 6)

RESOLVED that approval be given to the draft Internal Audit Plan and proposed work programme.

5. External Audit Progress report
(Item 7)

(1) Mr D Wells from the Audit Commission was present for this item to introduce the report.

(2) RESOLVED that the report be noted.

6. Audit Commission Internal Audit Review 2007/08
(Item 8)

(1) RESOLVED that the external auditor's report be received and its recommendations noted.

7. Audit Commission Review of Use of Resources
(Item 9)

RESOLVED that the external auditor's report be received and its recommendations noted.

8. Directorate Risk Registers
(Item 10)

RESOLVED that the revised risk registers be noted.

9. An Anti Fraud Strategy for KCC
(Item 11)

(1) The Committee agreed to amend the draft Whistleblowing Strategy through the inclusion of an additional statement within its Introduction that the County Council regards whistleblowing as an entirely positive benefit.

(2) RESOLVED that :-

- (a) the promotion of a counter-fraud culture within the County Council be endorsed; and
- (b) approval be given to the Anti-Fraud strategy set out in Appendix 1 of the report subject to paragraph (1) above.

10. Data Quality Audit 2007/08
(Item 12)

RESOLVED that:-

- (a) approval be given to the action plan set out in Appendix 1 of the report;
- (b) the Policy Overview Committees be asked to discuss the Data Quality audit in order to engage Members more fully with data quality issues; and
- (c) the report be referred to the Informal Member Group: Member Information.

11. KCC Annual Complaints Report 2007/08
(Item 13)

RESOLVED that the report be noted and the proposed changes from 2009 supported.

12. Health, Wellbeing and Attendance Action Plan
(Item 14)

RESOLVED that:-

- (a) the work underway to address health, well-being and attendance be noted; and
- (b) a report giving greater detail on the work around well-being be presented to a future meeting of the Committee.

13. IT Solutions for the provision of key services (Presentation on the response to a key risk identified by Committee Members)
(Item 16)

- (1) The Head of ICT Commissioning gave a presentation on the risk to service associated with the County Council's increasing use of information technology.
- (2) RESOLVED that Mr Bole be thanked for his presentation and that the level of risk to service (in direct proportion to the level of reliance on the technology deployed) be noted.

14. Superannuation Fund Audit Plan for 2008/09
(Item 15)

The Chairman informed the Committee that this matter would be considered by the Superannuation Fund Committee.

This page is intentionally left blank

By: Richard Long - Chairman of Governance and Audit Committee
Janet Dawson - Head of Audit and Risk

To: Governance and Audit Committee – 30 June 2009

Subject: DRAFT INTERNAL AUDIT ANNUAL REPORT

Classification: Unrestricted

Summary: This report contains the Draft Head of Audit and Risk Annual Report for review and approval.

FOR APPROVAL

Introduction

1. This report summarises the work that the Authority's Internal Audit and anti-fraud service has undertaken during 2008/09. It also highlights the key issues with respect to internal control, risk and governance arising from that work.
2. The Head of Internal Audit is required to provide the accounting officer with an opinion on the overall adequacy and effectiveness of the Authority's:
 - Risk management
 - Internal Control
 - Governance processes.
3. This is collectively referred to as "the **system of internal control**". The assessment of the control environment has an impact on what is recorded in the Annual Governance Statement, which must be disclosed in the Authority's final accounts.

RECOMMENDATION

4. Members are asked to APPROVE the Head of Audit and Risk Annual Report.

Janet Dawson - Head of Audit and Risk
Extension 4614

This page is intentionally left blank

June 2009

Kent County Council

Internal Audit Annual Report 2008/09 – Draft

Page 9



Contents

Section	Page
I. Introduction.....	3
II. Scope, responsibility and assurance.....	12
Appendix A - Summary of individual internal audit projects (limited or minimal assurance).....	13
Appendix B - Detailed Analysis of internal audit projects in 2008/2009.....	19
Appendix C - Internal Audit Charter	23

I. Introduction

Purpose of this report

This report summarises the work that the Council's Internal Audit and anti-fraud service has undertaken during 2008/09. It also highlights the key issues with respect to internal control, risk and governance arising from that work.

Overview of work done

The original Plan for 2008/09 included a total of 61 projects. We have communicated closely with senior management throughout the year, to ensure that the projects *actually* undertaken continue to represent the best use of our resources in the light of new and ongoing developments in the Council.

As a result of this liaison, some changes were agreed to the Plan during the year. Some projects have been added to or deleted from the Plan, others have been carried forward from the previous years plan, and the timing of a number of others has been changed. Some of our planned audit work has been substituted for advisory work. Details of the changes to the audit plan were reported to the Governance and Audit Committee on 4 March 2009. The total number of projects undertaken in 2008/09 was 73, excluding the advisory work undertaken. At the time of preparing this report (early May), the position on these was as follows:

- 56 – final report/assurance work completed
- 17 – in draft and in the process of being finalised

During 2007/08, Internal Audit undertook a Council-wide risk and control mapping exercise to streamline the audit planning process and ensure that the assurance activity was aligned to the business and corporate risks.

The risk and control mapping exercise enabled management to assign a score both to the inherent and the residual level of risk within each area of the business. By identifying areas of risk where management believes there to be a high level of control, we were then able to focus our internal audit resource to provide assurance that those controls were operating effectively during the year, or to highlight where improvements were required. This exercise was extended in 2008/09 to identify ICT risks and controls and to identify 'risk' owners. The risk mapping exercise was used as the basis for the 2008/09 plan and helped inform the 2009/10 audit plan.

Internal Audit also undertook 23 investigations relating to potential fraud by staff or third parties, none of which were significant to the control and risk framework for KCC.

Internal audit performance

Members receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Additional key performance indicators were introduced in June 2008. For those measures where information is available, performance is shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	97%
% of recommendations implemented	90%	80%
CPA/CAA score for Internal Control	Level 4	Level 3
Efficiency		
% of plan delivered	95%	94%
% of available time spent on direct audit work	80%	88%
% of draft reports completed within 10 days of finishing fieldwork	89%	94%
Preparation of annual plan	By March	Met
Periodic reports on progress	G&A Cttee meetings	Met
Preparation of annual report	Prior to AGS	Met
Quality of Service		
Average Client satisfaction score	70%	93%
Staff Management		
Staff with professional qualifications (including trainees)	60%	64%

The Council's Use of Resources score for Internal Control under Continuous

Performance Assessment (CPA) in 2007/08 was assessed by the Council's external auditors. The Council was scored 3 for each aspect of the internal control judgment. A summary of external audit's key findings that prevented achievement of the target score of 4 are summarised below:

- There has been no risk management training for Cabinet Members other than those who serve on the Governance and Audit committee. Due to the role that the Cabinet has in making key policy and strategic decisions, risk management training is regarded as key for all Cabinet Members
- All strategic policy decisions and PID's include a risk assessment. However, the documents do not include a 'sustainability impact appraisal' section. Despite being identified as an area for improvement in the previous year's Corporate Assessment report, the action to address this recommendation was not undertaken until June 2008 and hence outside the assessment year
- The Council demonstrated how partnerships are monitored by managers during 2007/08, but this did not specifically cover the governance arrangements. Therefore, the external auditors could not satisfy themselves that Council subjects partnership governance arrangements to regular review and updating
- Whilst the Council holds copies of the business continuity plans for key partners and major contractors, there was only limited evidence of review of the viability of these plans
- There is a high level of awareness of fraud raised by Internal Audit through presentations and Irregular Happenings publications. However, it is difficult to demonstrate how staff have acknowledged and accepted their responsibility at all grades across the whole Council
- The external auditors were not satisfied that sufficient steps had been taken by the Council to demonstrate that its staff and contractor organisations had confidence in its whistle-blowing procedures.

Actions to implement recommendations are in progress, for example risk management training is included in the financial training modules available to members. Although not all of the 2007/08 Use of Resources judgments translate exactly to the new Continuous Area Assessment regime, work will be undertaken as far as possible by the external auditors in 2008/09 to assess the extent of progress made.

Objectives of Internal Assurance Projects

The majority of projects we undertake are designed to provide assurance to management on the operation of the Council's internal control environment. Most projects include our recommendations and agreed actions with management that will, if implemented, further enhance the environment and the operation of the controls in practice.

Other projects are designed to provide specific advice and support to management to enhance the efficiency, effectiveness and economy of the services and functions for which they are responsible. Our internal audit work and findings are informed by the investigations and fraud risk management work carried out under the anti-fraud element of the plan as well as the risk management framework of the Council.

Our work plan is derived from management's assessment and evaluation of risks as documented in the corporate and directorate risk registers and, since September 2007, from the detailed risk mapping exercise undertaken across the Council during the summer of 2007. We prepared an internal audit plan based on the risk profile taking into account; discussions with the Chief Executive, Directorate Managing Directors and Resource Directors, Audit Committee Chair and Members and the External Auditors (Audit Commission).

A number of key changes to the planning and delivery of internal audit introduced in 2007/08 have been continued and developed further during 2008/09, including:

- The internal audit partnership established with PricewaterhouseCoopers during 2007/08
- Closer liaison with external audit in planning of material system audits, ensuring that the Audit Commission could place full reliance on the work of internal audit
- Greater integration between risk management responsibilities and the Internal Audit function to ensure that it is aligned to the business and corporate risks.

The risk mapping and planning process carried out during the year identified a small number of areas where further internal audit coverage was required. Those areas have been included within the 2008/09 audit plan and are set out below:

- IT risk and governance arrangements
- Procurement/Contracting

Overall Assessment

The Head of Internal Audit is required to provide the accounting officer with an opinion on the overall **adequacy and effectiveness** of the Council's:

- Risk management
- Internal Control
- Governance processes.

This is collectively referred to as “**the system of internal control**”.

Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, substantial assurance can be provided on the adequacy of the overall governance and risk management processes and the internal controls at KCC.

Management has responded positively to recommendations made to strengthen controls in the areas that were reviewed and many of these are already being implemented.

The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. We also noted that management accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in our Internal Audit reports. All these points are indicative of an improving system of internal control.

However, the Council still has some areas that if addressed, will further strengthen the system of internal control. We have summarised these, along with key areas of strength, for each of the three categories of the Council's 'system of internal control' below.

Governance

In 2007/08 we reviewed the Council's governance arrangements by comparing them with the six principles of the CIPFA SOLACE Governance Framework (Delivering Good Governance in Local Government, 2007). We found that the governance arrangements were largely in accordance with both the core and supporting principles. Although at that stage the Council had yet to update its governance code, we found that Council-wide practices already met most requirements. In November 2008, we recommended that the Code of Governance should be updated as soon as possible and communicated throughout the Council. A communications plan should be developed identifying those who need to be aware of the Code and how they will be made aware of it. This will help ensure the Code is communicated effectively throughout the Council.

Our 2008/09 governance audit built upon the the work undertaken in the previous year and reviewed the following areas:-

- A sample of directorates' action plans contained in their Annual Governance Statements (AGSs)
- Governance arrangements for the Policy and Overview Committees (POCs)
- Governance arrangements for the Scrutiny Committee.

The audit concluded that POCs were compliant with DCLG guidance and that they played an important role in influencing policy decisions and reviewing performance in directorates. Areas identified as exceptions in the Annual Governance Statement reviews were being monitored by officers, although some directorates had more action points than others. In addition, the criteria underpinning the setting of action points were unclear and were not being consistently applied across directorates.

Audits were also carried out on Governance of Individual Partnerships (substantial assurance); Members' Code of Conduct – Locally Managed Framework (high assurance); and Public Consultation - in KASS (substantial assurance). We note that further clarification is still needed to determine

'significant' and 'major' partnerships; this will be determined by the Resource Directors Group. Significant and major partnerships will be included in directorates' risk registers; and partnerships 'key' to the Council will be included in the Strategic Risk Register.

Risk Management

In 2008/09 we reviewed Council-wide risk management arrangements through interviews with a range of Managing Directors, Directors and Heads of Service Areas and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

Across directorates we found a high level of risk awareness, particularly in relation to operational risks. Interviewees were generally aware of the Council's risk management framework and adhere to its principles.

Taking into account the findings of internal audit and other external assessments, it is evident that risk is generally well managed throughout the Council. However, in accordance with the Council's commitment to continuous improvement we made a number of suggestions early in 2008/09 which we reported in last year's Annual Report, by which risk management arrangements could be strengthened, contributing to greater proactive consideration, identification and management of risk.

Since then, a risk group has been constituted, chaired by the Head of Audit and Risk and the Corporate Risk and Insurance Manager. A nominated risk champion from each directorate also attends. The purpose of the group is to ensure that good practice can be disseminated throughout the Council, as well as providing a forum to discuss risk issues and identification of where support is needed in terms of capacity and guidance. The group reports to the regular Resource Directors monthly meetings.

Regular review of risk registers and risk briefings at the Governance and Audit committee meetings have taken place during 2008/09, in addition to member risk training. Further work is underway to develop the definition of the Council's "risk appetite" and to assess aggregate risk and follow up of the actions taken is planned for 2009/10.

Internal Controls

Overall, our work has not identified significant weaknesses in the overall internal control environment. Controls are generally in place and operating effectively, however there were some exceptions noted from our reviews during the year. From our audits our main findings indicating where improvements were required included:

- During 2008/09 Internal Audit undertook some 'themed' audits of payroll including, overtime payments, and allowances. The process around overtime payments was inconsistent as there was no process to identify the correct rate for paying overtime to staff and different claim forms were in use. Employee Services Centre has now designed and implemented a universal claim form to improve this process. In addition some units were paying their staff a high level of overtime which was outside the Employment of Terms and Conditions of Service (The Blue Book), and there were concerns that staff had not formally opted out of the Working time Directive. The Director of Personnel & Development is taking action to ensure that managers are informed through the Policy Group and Joint Rewards Team of the need for effective action to monitor and control overtime and to ensure that directorates comply with the working time directive. A follow up audit has been carried out on overtime payments, however, we were unable to provide an assurance as the improvements planned need time to be implemented and embedded, therefore Internal Audit will follow this up again during 2009/10.
- Business Continuity Planning and Disaster Recovery was raised in the 2006/07 Statement of Internal Control and 2008/09 Annual Governance Statement. The Emergency Planning Team has been assigned responsibility for providing guidance on the BCP strategy, however, there is still the need to create Business Continuity Plans to ensure the continuation and restoration of the key business processes within the timescales required following an operational failure or major disaster.
- Kent Highways Services – an audit of the Works, Ordering and Asset Management System (WAMS) was carried out during 2008/09, this was a follow up to an interim audit carried out in 2007/08. The audit found

that the lack of process mapping, training and standard processes within WAMS was resulting in working practices varying at both officer and departmental levels. In particular staff were unaware of the costs that the contracting function should be charging for work undertaken, and there was no defined process to ensure that officers had challenged or reviewed a target cost prior to its acceptance. A number of recommendations have been made which will be followed up during 2009/10.

Investments in Icelandic Banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glintrir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Authority has £50.35m deposited across 3 of those institutions.

Previous internal audit work performed in 2007 and 2008 concluded that substantial assurance in the treasury management controls could be taken by the Council. One outstanding control recommendation (the implementation of which would have not changed the decision to invest in Icelandic bank deposits) had not been actioned by September 2008, however this had not been brought to the attention of senior Finance officers. The escalation policy for agreement of recommendations by auditees and the approach for follow up of implementation of actions by Internal Audit were revised with immediate effect. Forensic work was undertaken by PricewaterhouseCoopers in November 2008 to identify further opportunities to improve the control environment and external advisors Arling Close were appointed to oversee the implementation of those recommendations. Their work, currently ongoing, confirms that the treasury management function complies with best practice now being recommended by CIPFA, the Audit Commission and DCLG.

Summary of Internal Audit Reviews

Opinions	No. of Projects (Final Reports)
High	13 (23%)
Substantial	26 (46%)
Limited	4 (7%)
Minimal	5 (9%)
Not Applicable	8 (14%)
Total	56

Limited or Minimal opinions were given to:

- *Business Continuity Planning (Minimal)*
- *Empty Property Development Loans(Limited)*
- *Overtime payments (Minimal)*
- *Works and Ordering and Asset Management Systems WAMS (Minimal)*
- *Allocation of Cluster Funding (Minimal)*
- *Use of Coroners' imprest Accounts (Minimal)*
- *Criminal Record Bureau Checks – Volunteers (Minimal)*
- *Kent Downs Area of Outstanding Natural Beauty - AONB (Limited)*
- *One Office – Application Security (Limited)*
- *Review of Financial Controls in two Schools (Limited and minimal)*
- *Information Governance Review (Limited)*

- *Tribal EBS System Review (Limited)*
- *ICS Data Migration Review (Limited)*

Each of the above audits has been reported in summary to the Governance & Audit Committee during the year, with management responses to the issues and recommendations raised. Follow up audits will be carried out in for those audits that had minimal assurance.

Appendix A sets out the summary of each of the above reports for information and Appendix B list all internal audits and the overall assurance rating for them.

Anti Fraud service

23 suspected/potential irregularities were reported to Internal Audit in 2008/09 by staff or third parties. Internal Audit and/or directorate staff carried out the investigations. An analysis of the types of irregularities reported to Internal Audit is shown below.

Type of Irregularity	Number
Cash theft/loss	4
Theft/loss	3
Falsification of claims	4
Procurement/Contractors	3
Inappropriate use of Equipment /facilities	1
Financial mismanagement	6
Fraudulent cheques	2
Total	23

One case was reported to the police who prosecuted a member of staff. The member of staff received a custodial sentence.

As part of Internal Audit's anti fraud strategy, we have carried out a random selection of checks on staff expense forms. No fraudulent claims were identified, although some issues were identified regarding the completion of claims, and the relevant managers were informed of this. In 2009/10 we will continue to carry out random checks and will include checks on Members' claims. This is at the request of the Standards Committee. In addition, using an interrogation tool we will target specific claims for review, for example claims for high mileage/expenses. We will also review procurement practices in a sample of areas to provide assurance that potential of fraud is minimised.

Internal Audit has published two editions of Irregular Happenings which highlights 'scams' that staff should be aware of, as well as detailing information where staff have been subject to disciplinary or criminal procedures as a result of irregularities committed.

We have continued to deliver fraud awareness training during 2008/09. This has helped to highlight potential fraud risks to managers.

Internal Audit take part in the Audit Commission's National Fraud Initiative (NFI). Internal Audit provides a number of data sets to the Audit Commission. The Audit Commission match the data with other data sets for example benefits, people employed by more than one local authority etc. Any 'matches' (eg to a person receiving a benefit and on the payroll system) is flagged in a report that is returned to Internal Audit for checking. In addition, Internal Audit works closely with other local authorities who have matches to KCC data sets. This work is ongoing and will continue during 2009/10.

Liaison with External Audit

We have continued to work very closely with the External Auditors and have developed a very good working relationship with them. This has been reinforced by the creation of an agreed protocol between Internal and External Audit. The External Auditors have carried out a triennial review of Internal Audit which was reported to the March 2009 Governance & Audit Committee. They have, as appropriate, relied upon our audit work as part of their external audit of the Council.

Self Assessment

Each year Internal Audit carries out a self assessment using the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit. The Code is divided into 11 sections and covers the expected standards to which Internal Audit should be working.

The completed checklist is some 30 pages long and is available upon request. The majority of the self assessment identified compliance with the Code of Practice. Inevitably there were a few exceptions highlighted through the self assessment process and these are summarised as follows:

- Where internal audit staff have been consulted during system, policy or procedure development, they are not always precluded from reviewing and making comments during routine or future audits. There has to be a balance between meeting the auditee's requirements to field knowledgeable staff and maintaining a fresh perspective. As a safeguard, the audit opinion is always reviewed by an independent manager prior to release
- In order to maintain their objectivity, the issue of staff rotation was last considered in March 2007. Some staff are deployed across the Section to carry out work and therefore do tend to be rotated, (on audits such as year end and accounts payable). In other cases, it is helpful to ensure continuity to make best use of audit and clients' time. Hence there was no rotation of senior staff
- Although the Head of Audit and Risk has not met privately with the Governance and Audit Committee in 2008/09, the arrangement to do so does exist. In addition, the chair's briefings in advance of each audit committee meeting provide a less formal environment for discussion between internal audit and Members
- The Head of Audit and Risk has not sought to establish a dialogue with regulatory and inspection agencies that interact with the Council. In practice, responsibility for liaison of this nature falls to the Audit Commission in their capacity as Comprehensive Area

Assessment Lead

- The Head of Audit and Risk has defined a standard for audit documentation and working papers. There are no independent quality reviews undertaken to monitor adherence with this standard. However, manager review processes on individual assignment are designed to ensure compliance with the standard.
- Terms of reference do not include details of the circulation of the particular audit report to which they relate. This is not considered necessary as a distribution list is included in the report. It may not be obvious at the terms of reference stage who all of the recipients will be.

Internal Audit Charter

Each year the Internal Audit Charter is reviewed to ensure that it is up to date and meets the needs of the Council. The Charter was last amended in 2007. Following the triennial review by the External Auditors and Internal Audit's self assessment, a section has been added to the Charter regarding the assessment of available resources to enable the annual plan to be completed. The Charter can be seen at Appendix D.

2008/09 Acknowledgements

We are grateful for the assistance and cooperation provided by the Council's staff during the course of our work. This has been much appreciated, in particular, the ongoing assistance and support of the Governance and Audit Committee.

II. Scope, responsibility and assurance

Scope

We prepared our internal audit plan based upon a variety of key factors including:

- Evaluation of the Council's risks using risk registers and the risk mapping exercise
- Review of existing key data, for example:
 - The Council's overall strategy
 - Budgetary information
 - Departmental business plans
 - Best Value performance plans
 - Audit Commission's requirements
- Interviews with senior management across the Council.

Responsibilities of management and of internal auditors

It is management's responsibility to maintain systems of risk management, internal control and governance. Internal audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal audit assists management in the effective discharge of its responsibilities and

functions by examining and evaluating controls. Internal auditors cannot be held responsible for internal control failures.

Whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness, internal audit procedures alone do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities, which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Internal audit's role includes assessing the adequacy of the internal control environment put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review. We have met with each of the Managing Directors and their team, seeking specific feedback on the adequacy of the internal audit service and identifying future directorate risk areas arising through their service planning process.

Our comments and assessments made in this report are based upon the results of our internal audits undertaken in accordance with the agreed Audit Plan.

It should be noted that the assurance expressed within this report can never be absolute. It is not a guarantee that all aspects of control are adequate. The most that internal auditors can provide to the S151 Officer and the Governance and Audit Committee is a reasonable assurance based on the work performed.

Appendix A - Summary of individual internal audit projects (limited or minimal assurance)

Business Continuity Planning

Scope

The objective of this audit was to assess the Council's business continuity planning arrangements.

Overall Assessment (Final) – Minimal

A Continuity of Business (CoB) Manual was created in 2004 by the /emergency Planning team to serve as a template for the CoB for directorates. Not all directorates have developed their own CoBs and there is a risk that a lack of clear guidance, communication and understanding of roles and responsibilities means that the Council may not be able to restore key and or critical processes within the timescales required in the event of a disaster.

Recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified.

Empty Property Development Loans

Scope

The objective of the audit was to review the process for approving and allocating loans to renovate empty properties in Kent.

Overall Assessment (Draft) – Limited

To enable empty properties to be used for affordable housing, KCC loans funds to suitable applicants to enable the properties to be renovated and either rented or sold, thus reducing the number of empty properties and increasing the available housing.

The audit found that there were processes in place to ensure that loans were only made to appropriate applicants. KCC has an agreement with the district councils for checking applicants and this arrangement is working well

However, there was no process in place to formalise what action should be taken if the applicant defaults on their loan.

Recommendations have been made which have been accepted by management and an action plan is in place to address the issues identified.

Overtime Payments

Scope

The objective of the audit was to review how overtime payments are monitored and controlled and to ensure that processes and controls are in place and are working effectively

Overall Assessment (Final) – Minimal

The audit found that there was a lack of adequate control on overtime payments from the initial approval through to the final payment.

Payments are also being made which appears to be outside of the Kent County Council Scheme and Conditions of Employment (The Blue Book). Some members of staff are regularly working overtime and the requirements of the Working Time Regulations are not properly monitored in some cases and the discretionary opt-out arrangements available have not been put in place.

Management have agreed with the findings and developed an action plan to address the issues identified. A follow up audit has taken place and although a number of the recommendations have been implemented, some of the agreed action will need to be implemented over a long term. We have therefore not given an opinion for this audit, but will carry out another follow up audit in 2009/10.

Works Orders and Asset Management System - WAMS

Scope

A review of Works Orders and Asset Management System to identify if the system supports the information, ordering and payment process to support the Kent Highways Service Alliance Partnership.

Overall Assessment (Final) – Minimal

The audit found that there are no controls to ensure that work that has been paid for has been carried out. The current processes allows the potential for additional costs to be charged to KCC with no check to ensure that this is appropriate. In addition the lack of process mapping, training and therefore standard processes within WAMS is resulting in working practices varying at both officer and departmental levels

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Allocation of Cluster Funding

Scope

The audit reviewed the processes in place for allocating funding to the schools' 'clusters' for spending in line with specific objectives

Overall Assessment (Final) – Minimal

The audit found that of the six clusters reviewed, there were no documented plans or strategy in place for the medium term that would allow the cluster to plan for longer term project delivery to address important, longer term issues within the cluster.

The monitoring of objectives achieved by recipients of funding was found to be weak across the six clusters reviewed, with some clusters having very few or even no controls in place to ensure that a follow up is undertaken to review outcomes. Schools were frequently given funding with no documented conditions in place to ensure schools knew from the outset of the necessity to effectively use funding within set periods, on specific types of expenditure and of the requirement to report on the outcomes achieved out of the funding.

The audit also found that there were instances where funding that had been reported

as being spent, had not been. It was either being held in school reserves or in some cases with external suppliers to deliver services at a later date. This practice is contrary to CFE's Financial Procedures regarding payments of goods and services.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Use of Coroners' Imprest Accounts

Scope

The objective of this audit was to review the use of the imprest accounts and the monitoring, reconciliation and reimbursements carried out on the accounts.

Overall Assessment (Final) – Minimal

The use of the imprest accounts by the Coroners does not comply with KCC financial regulations, however the guidelines issued to Coroners prior to the start of the audit were non specific to the Coroners.

Coroners were not clear as to what could and shouldn't be paid through the imprest accounts. In addition there was often no documentation to substantiate payments being made.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Criminal Records Checks for Volunteers (KASS)

Scope

To review processes and controls to ensure that agency staff and volunteers have the appropriate CRB checks if working with vulnerable service users.

Overall Assessment (Final) – Minimal

This audit included a review of CRB checks for agency staff the audit found that agency staff had the appropriate CRB disclosures. However, staff were unclear regarding the responsibility for ensuring volunteers (who work with vulnerable service users) had the appropriate disclosures. We found there were a number of volunteers who did not have the appropriate disclosures.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Kent Downs Area of Outstanding Natural beauty (AONB) Financial Controls

Scope

An audit to review the financial controls at the request of the Director of Kent Downs AONB.

Overall Assessment (Final) – Limited

Key areas requiring improvement included/implementation:

The need to introduce a division of duties between placing orders, checking deliveries, making payments, maintaining records and reconciling the account to the records produced from Oracle, and the preparation of any returns.

- The need to develop an appropriate system for ordering, recording and evidencing purchases
- The development of an asset register to record the Unit's assets.

Management has agreed with the findings and have developed an appropriate action plan to address the issues identified.

One Office – System Security Review

Scope

The objective of this audit was to review One Office application security controls, focussing on users' access rights and segregations of duties.

Overall Assessment (Draft) – Limited

The One Office system is used by Kent Commercial Services (KCS) to manage the sales process for the educational and office supplies it provides, including warehouse management, stock movement management, and order processing.

Formal policies and procedures for problem management (problems / issues), or managing the roll-out of changes to OneOffice are not in place, although these are in the process of being developed. Furthermore, the system backup and disaster recovery procedures also need to be documented, to ensure all of the information required during the recovery of OneOffice is available in the event of system disruption. Areas were also identified where the access controls over OneOffice can be improved, to reduce the risk of unauthorised users gaining access to the information held, or segregations of duties being breached and unauthorised transactions being processed.

Recommendations have been made which are to be discussed with management, to enable an action plan to be put in place

Review of Financial Controls in Schools

Scope

To provide assurance on the systems of financial controls in two schools.

Overall Assessment (Final) – Limited and Minimal

The two audits took place at the request of the schools to provide assurance on their system of financial controls. A number of issues were found at both schools including non compliance with procedures which exposes the schools to the risk of loss and fraud.

Management have agreed with the findings and developed an appropriate action plan to address the issues identified.

Information Governance

Scope

To provide assurance on the governance arrangements for ensuring that data owned by the Council is classified, held securely and is disposed of correctly and securely.

Overall Assessment – (Draft) Limited

There was evidence that there is a drive within KCC for appropriate provision of Information governance authority wide. This is evident from the appointment of experienced Information governance leads and Co ordinators in each directorate. However, the audit found that there was no clear Information Governance Lead at corporate level to set the tone across the Council. A Senior Information Risk Owner (SIRO) has now been identified. Protocols need to be established for the extraction, sharing, disclosure and disposal of information, both internally and externally. The legacy information classification policy that the Council has in place needs to be updated to reflect the risks that are now faced and communicated to staff.

Recommendations have been made which are to be discussed with management to enable an action plan to be put in place.

Tribal EBS system

Scope

To review key areas within the Tribal contract and service level agreement and the controls over the security and operation of the EBS system.

Overall Assessment – (Draft) Limited

The Tribal EBS system is a web-based student record and management system used by Kent Adult Education Services (KAES) to facilitate the provision, and collection of payments for educational courses.

The audit found that the service level agreement between KAES and Tribal has not been formally agreed, although a draft agreement is in place. This could make it difficult for KAES to receive the service credits due of the provision of services by Tribal. Furthermore, areas were identified where the security of the EBS system can be improved, to reduce the risk of unauthorised users gaining access to the information held.

Recommendations have been made which are to be discussed with management, to enable an action plan to be put in place.

ICS Data Migration

Scope

To review the controls in place for migrating data from the Swift system to the Integrated Children's Service (ICS).

Overall Assessment (Final) – Limited

The reporting on the delivery of Integrated Children's Services became a national requirement in January 2006. KCC was initially going to use a module within Swift but it was determined that the application did not meet the business requirements. There was therefore, the need to migrate data held on Swift to a new ICS and Fostering and Adoption (FA) System. There were issues identified, for example there were not always formally defined data quality, data cleansing and data migration objectives. However, as this review took place after the migration of data had occurred, it was not possible to implement any recommendations for this particular migration. However, recommendations have been made which management have agreed will be applied to future projects of this nature.

Assurance Definitions

Limited Assurance

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 Assurance

The Council 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

Appendix B - Detailed Analysis of internal audit projects in 2008/2009

Page 27

Project – Directorate	Progress at May 2009	Overall Assessment	Project – Directorate	Progress at May 2009	Overall Assessment
Council Wide			Chief Executive's Department		
Corporate Governance Health Check	Completed	High	Fixed Assets (07/08)	Completed	Substantial
Risk Management Framework	Completed	Substantial	Oracle Review – Segregation of Duties	Completed	Substantial
ICT Governance	Completed	Substantial	Network Security	Completed	Substantial
ICT Risk Assessment	Completed	N/A	Overtime Payments	Completed	Minimal
Corporate Governance	Work in progress		Accounts Receivable (07/08)	Completed	Substantial
Risk Management	Work in progress		Oracle Review – HRMS, Payroll and iProcurement	Draft	N/A
Governance of Individual Partnerships	Completed	Substantial	Unix Operating System Security	Work in progress	
Contract monitoring and tendering process	Work in progress		Year End Accounting	Completed	Substantial
Access to Information	Completed	Substantial	Bank reconciliations	Completed	High
Information Governance	Draft	Limited	Schools Payroll	Completed	Substantial
Third Party ICT Procurement	Work in progress		Local Area Agreement Certification	Completed	N/A
Business Continuity Planning	Completed	Minimal	Fixed Assets (08/09)	Draft	Substantial
Public Service Agreement Certification	Completed	N/A	Accounts Payable	Completed	Substantial
			Accounts Receivable	Completed	Substantial
			Payroll Allowances	Completed	Substantial

Project – Directorate	Progress at May 2009	Overall Assessment	Project – Directorate	Progress at May 2009	Overall Assessment
Chief Executive's Department (continued)			Children Families and Education		
Insurance Fund	Completed	High	Allocation of Cluster Funding	Completed	Minimal
Kent Public Service Network (KPSN) Part 2	Completed	Substantial	Family Group Conferencing	Completed	Substantial
One Office – Application Security	Draft	Limited	School Funding	Completed	High
Members code of Conduct – Locally Managed Framework	Completed	High	Student Awards Transition Plan	Completed	High
Rebate Income	Completed	High	CRB checks non schools' staff	Completed	High
Expenditure Direct Purchases	Draft	Substantial	Effectiveness of Financial Management	Completed	Substantial
Follow Up to Overtime Payments Interim audit	Completed	N/A	Review of Financial Control in School	Completed	Limited
Energy Procurement	Completed	High	Review of Financial Control in School	Draft	Minimal
Revenue Budget Monitoring (KASS)	Completed	High	ICS Data Migration	Completed	Limited
Children Families and Education			Communities		
Allocation of Cluster Funding	Completed	Minimal	Funding for Sports Development	Completed	Substantial
Family Group Conferencing	Completed	Substantial	CRB checks for volunteers (follow up)	Completed	High
School Funding	Completed	High	Internet access in CMY establishments accessed by the public	Completed	Individual opinions for each of the units
Student Awards Transition Plan	Completed	High	Tribal EBS System	Draft	Limited
CRB checks non schools' staff	Completed	High	Use of Coroners' imprest accounts	Completed	Minimal
Effectiveness of Financial Management	Completed	Substantial	Registration Service Income	Draft	Substantial
Review of Financial Control in School	Completed	Limited	Health & Safety – direction of travel	Completed	Substantial
Review of Financial Control in School	Draft	Minimal			

Project – Directorate	Progress at May 2009	Overall Assessment	Project – Directorate	Progress at May 2009	Overall Assessment
Kent Adult Social Services			Environment & Regeneration		
Care Management Processes West Kent Area	Completed	Substantial	Works and Ordering Management System (WAMS)	Completed	Minimal
Care Management Processes East Kent Area	Completed	Substantial	Local Transport Plan	Work in progress	
Capital Projects Post completion review	Work in progress		KHS Review of Costing process	Completed	N/A not sure if we should include this
Procedures & Processes for Adult Protection	Completed	Substantial	Review of Security Arrangements at Stour Street premises	Completed	N/A
Public Involvement	Completed	Substantial	Cleaner Kent Joint Audit and VfM review	Completed	N/A
Financial Assessments	Completed	High	Policies and procedures for Health and Safety in Country Parks and Public Right of Ways	Completed	Substantial
Occupational Therapy Bureau Equipment	Work in progress		Household Waste Recycling Contracts	Completed	Substantial
Swift system Security	Completed	Substantial	Securing adequate funding to deliver business objectives	Completed	Substantial
Transitional Arrangements for LD client group from Health to Social Care	Draft	Substantial	Empty Property Development Loans	Draft	Limited
Criminal Records Bureau (CRB) Checks for Agency Staff and Volunteers	Completed	High (Agency Staff) Minimal (Volunteers)	Kent Downs Area of Outstanding Natural Beauty	Completed	Limited

Key	
High	The system/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively.
Substantial	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	<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	<p>The Council 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>
Not Applicable	Internal audit advice/guidance no overall opinion provided.

Appendix C - 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 opinion 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 (2006).

KCC'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 record and its systems of internal control' is contained in the Accounts and Audit Regulations 2003 (amended 2006). This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the 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 risks resulting from not taking action. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne.

Professional Standards:

KCC's Internal Audit activity will conform to standards and guidance contained in CIPFA's 'Code of Practice for Internal audit in Local government in the UK' (2006). This is structured around eleven 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 Head of Audit and Risk will have free and unrestricted access and freedom to report in his/her own name to the Director of Finance and Chairman of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates', annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual 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. The Governance and Audit Committee will approve the plan and at each of its meetings will receive reports summarising significant finding of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, at each of its meetings, progress on the directorates' implementation of recommendations made by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc.

Audit Scope

Internal Audit activity will be undertaken to provide assurance to the Director of Finance and the Governance and Audit Committee as to the adequacy and effectiveness of the Councils' 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 impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
 - Fraud and other offences
 - Waste, extravagance and inefficient administration, poor value for money and other causes

- Reviewing the suitability and reliability of financial and other management data developed within the organisation
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems
- Promote and raise fraud awareness

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

The Head of Audit and Risk will provide an annual audit opinion as to the adequacy of the Councils internal controls and risk management processes. This will be used to support the Statement of Internal Control.

Fraud and Irregularity

Internal Audit does not have to investigate all cases of potential frauds and irregularities, however they must all be reported to the Head of Audit and Risk or the Senior Audit Manager. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chairman of the Governance and Audit Committee at the time of the investigation.

Right of Access

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

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Audit and Risk to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the plan.

Review of the Effectiveness of the System of Internal Audit

In accordance with the Accounts and Audit Regulations (2006), there is a requirement for an annual review of the effectiveness of the system of internal audit, this is also part of the wider annual review of the effectiveness of the system of internal control. The Head of Audit and Risk will carry out an annual review of the Internal Audit function which will be reported to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of Audit and Risk will arrange for an independent review to be carried out, at least every three/five years which will be reported to the Governance and Audit Committee.

This page is intentionally left blank

19 June 2009

Mr Peter Gilroy
 Chief Executive
 Kent County Council
 Sessions House
 County Hall
 Maidstone ME14 1XQ

Direct line 0844 798 6110
Email d-wells@audit-commission.gov.uk

Dear Peter

Annual audit fee 2009/10

Further to a number of discussions with your senior officers and those that my colleague, Grahame Brown, has had with Lynda McMullan, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at the Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Claire Bryce-Smith as the Council's Comprehensive Area Assessment Lead will write to you separately on inspection fees.

The total indicative fee for the audit for 2009/10 is for £377,770 (exclusive of VAT) which compares to the planned fee of £354,020 for 2008/09. A summary of the different elements of the fee and a comparison to 2008/09 is shown below.

Audit area	Planned fee 2009/10	Planned fee 2008/09
Financial statements	256,890	244,750
Use of Resources/VFM Conclusion (including risk based work)	117,280	106,170
WGA	3,600	3,100
Total audit fee	377,770	354,020
Claims and returns certification (estimate)	25,000	25,000

The Commission has published its work programme and scales of fees 2009/10. Based on this the Council's scale fee is £377,770 and this is the fee proposed for 2009/10.

Audit Commission, 16 South Park, Sevenoaks, Kent TN13 1AN
 T 0844 798 1350 F 0844 798 1399 www.audit-commission.gov.uk

In setting the fee at this time I have assumed that the general level of risk in relation to our work on the financial statements is not significantly different from that expected in 2008/09. A specific plan for this will be sent to the Council in February 2010 which will detail the financial statements risks identified, our planned audit procedures and any changes in fee for this element of our audit. I intend to discuss on an ongoing basis the Council's preparations for complying with the International Financial Reporting Standards in 2010/11.

The fee for grant certification work is an estimate and will be charged at the rates published by the Commission.

I do need to make you aware that the audit planning process for 2009/10 will be subject to review and updated as necessary as I have not yet completed my audit for 2008/09. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Director of Finance and then prepare a report explaining the reasons for discussion with the Governance & Audit Committee.

One key element of my use of resources work will be undertaken using the Commission's key lines of enquiry for the three themes below:

- managing finances;
- governing the business; and
- managing resources.

Further details can be found in the Commission's work programme and scales of fees 2009/10.

My work on use of resources informs my 2009/10 value for money conclusion. My planning for the 2009/10 audit has also identified a small number of significant risks relating to the value for money conclusion. Some of these, such as health inequalities follow up, are planned to be undertaken across all appropriate public bodies in Kent.

For each of these risks, I have considered the Council's arrangements to mitigate the risk and set out the work planned and timings below.

Risk	Planned work	Timing of work
There is evidence of health inequalities across the county area. Joint working with health partners in the National Health Service (NHS) is needed to tackle the inequalities that exist.	We will undertake a follow up of our 2008/09 work to assess the progress made by the Health and Well Being Boards during 2009. Our findings will be issued jointly to all bodies involved in the review and an action plan prepared.	June 2009 to March 2010

<p>Workforce planning underpins and supports improvements in service delivery. Where it is ineffective corporate ambitions might not be achieved.</p>	<p>We will review the effectiveness of the Council's existing workforce planning in terms of its contribution to the achievement of its vision by considering whether it addresses fully the Council's future workforce requirements including its plans for the ongoing development of its staff in order to fill identified future gaps.</p>	<p>June 2009 to September 2009</p>
<p>Community cohesion issues are complex and can operate differently in local areas even within the same council area. The identification of factors that prevent the achievement of good community cohesion can be challenging as is the identification of actions to improve cohesion.</p>	<p>We will review the approach across Kent and in doing so will involve other bodies as appropriate to establish the effectiveness of community cohesion and to identify any opportunities to enhance the arrangements in place.</p>	<p>June 2009 to January 2010</p>
<p>The transfer of responsibility of adults with learning disabilities from the NHS to local authorities needs to be achieved after consideration of a range of financial issues. The Council will have significant financial responsibilities for a large number of vulnerable people going forwards and there is a need to ensure that the Council understands the financial impact of the transfers.</p>	<p>We will build on our work undertaken at the 2008/09 audit and monitor the progress made by attendance at key meetings and discussions with responsible officers. This work will be reported as part of our Annual Governance Report.</p>	<p>June 2010 to March 2010</p>

<p>Participation in the Building Schools for the Future programme is technically demanding and requires effective project management at all stages from the application phase to completion. The Council will invest a significant amount of money in the programme and there remains is an ongoing risk until all schemes are completed.</p>	<p>We will undertake a high level overview of the Council's approach in order to ensure the arrangements in place ensure that the Council achieves value for money. This work will be reported as part of our Annual Governance Report.</p>	<p>June 2009 to March 2010</p>
<p>The current economic climate has impacted significantly on the finances of local authorities including increased demand for some services, reduction in income from charges levied and increased levels of debtors. Potentially this places the Council's financial health at risk.</p>	<p>We will monitor the Council's financial performance to see how well it is managing the impact of the current economic climate and assess the impact on its overall financial health. This work will be reported as part of our Annual Governance Report.</p>	<p>June 2009 to March 2010</p>

Project specifications for each piece of work will be issued for discussion with officers before any work is started.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1. Where we are undertaking monitoring reviews, updates will be given as part of our progress reports to the Governance & Audit Committee in year.

The above fee excludes any work requested by you that the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager – Grahame Brown 0844 798 6107

Audit Manager – Liz Robinson 0844 798 1377

Team Leader – Jeremy Jacobs 0844 798 6121

I am committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Neil Childs, Head of Operations, Southern Region who can be contacted at the following e-mail address n-childs@audit-commission.gov.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'DWells', with a small flourish at the end.

Darren Wells
District Auditor

cc Lynda McMullan, Director of Finance
Mr R Long, Chairman of the Governance & Audit Committee

Appendix 1: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee. We will also provide regular progress reports to the Audit Committee.

Planned output	Indicative date
Review of health inequalities	February 2010
Review of workforce planning	February 2010
Review of community cohesion	February 2010
Annual governance report	September 2010
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2010
Use of resources report	September 2010
Final accounts report	October 2010
Annual audit letter	November 2010

29 April 2009

Peter Gilroy
 Chief Executive
 Kent County Council
 Sessions House
 County Hall
 MAIDSTONE
 Kent ME14 1XQ

Direct line 0844 798 2325
Mobile 07818 427477
Email c-bryce-smith@audit-commission.gov.uk

Dear Peter

Annual inspection fee 2009/10

I am writing to confirm the assessment and inspection work that we propose to undertake for the 2009/10 financial year at Kent County Council. The inspection fee:

- is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance; and
- reflects only the Audit Commission’s inspection work, excluding any audit fees. Your appointed auditor will be writing to you separately on fees for audit work.

CAA will deliver a more proportionate and risk based approach to inspection, targeting only high risk services and outcomes for inspection where alternative improvement activity is not appropriate. The inspection plan will be reviewed and updated as necessary.

The total indicative fee for inspection for 2009/10 is £18,293 and is shown in the table below. The inspection fee has been set in accordance with the Audit Commission’s work programme and scales of fees 2009/10.

Assessment and inspection work plan and fee

Assessment / inspection activity	Planned fee for 2009/10
Area assessment of local partnership	n/a (CLG grant funded)
Managing performance theme of organisational assessment	£18,293
Total inspection fee	£18,293

If I need to make any significant amendments to the inspection plan and fee during the course of the year, I will first discuss this with you and then confirm in writing outlining the reasons for the change, including the proposed scope for the work.

The above fee excludes any work you requested and the Commission has agreed to undertake using its advice and assistance powers.

If you have any questions regarding this letter, please contact me in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs.

Yours sincerely

Claire Bryce-Smith
Comprehensive Area Assessment Lead

cc Lynda McMullan, Director of Finance

By: Cabinet Member for Finance
 Director of Finance

To: Governance and Audit Committee – 30 June 2009

Subject: **TREASURY MANAGEMENT ANNUAL REVIEW**

Classification:

Summary: To report on Treasury management activity in 2008-09.

FOR INFORMATION

INTRODUCTION

1. This report is to review the main aspects of treasury management activity during the year in accordance with the CIPFA Code of Practice on Treasury Management.
2. The last annual report was on 17 September 2008 only a few days before the collapse of Lehman Brothers proved to be the trigger point for the largest banking crisis for a century. Whilst this report will cover activities in 2008-09 it will also cover the current position and what action we have taken.

LONG TERM BORROWING

3. As at 31 March 2009 long term borrowing was £991.4m after allowing for £51.2m of debt which we manage on behalf of Medway Council.

4. **New Borrowing**

In 2008-09 we undertook the following borrowing against a requirement of £100.6m within the treasury strategy in the medium term plan:

Date	Amount £m	Interest Rate %	Period of Loan Years	Source	Type
09/10/08	10	4.39	35	PWLB	Maturity
30/01/09	10	3.95	60	RBS	LOBO
16/02/09	20	4.15	60	DEXIA	LOBO
Total	40				

5. Whilst short term interest rates have plummeted from 5% in October 2008 to 0.5%, long term PWLB rates have not moved significantly. So, for example, PWLB 49 ½ - 50 year funds started the year at 4.43% and at 31 March were at 4.58%, they fell below 4% for a very short period.

The need for Government to raise very substantial sums due to the increased budget deficit will mean that these longer term rates are unlikely to fall.

6. The RBS and Dexia borrowing were forward deals arranged well in advance. Given the very low rate of interest being received on deposits we are holding off any new borrowing and will effectively fund that requirement from our cashflow for as long as possible. This will be fully addressed within the new Treasury Strategy we are developing.

Debt Restructuring

7. Debt restructuring had become much more difficult because of the new structure of PWLB interest rates with differential rates for new and restructured borrowing. The extreme divergence of short and long PWLB rates in January gave some unprecedented opportunities for savings to be made as set out in the table below:

DATE	AMOUNT £	INTEREST RATE %	REMAINING PERIOD OF LOAN YEARS	MATURITY DATE	ANNUAL SAVING £	SOURCE	TYPE
Old Loans							
21/01/09	10,000,000	4.3	26.55	10/08/35	344,882	PWLB	Maturity
21/01/09	10,000,000	4.25	26.8	10/11/35	420,153	PWLB	Maturity
21/01/09	10,470,000	4	42.05	10/02/50	570,846	PWLB	Maturity
21/01/09	20,000,000	4.1	34.05	10/02/43	1,095,652	PWLM	Maturity
21/01/09	10,000,000	4.1	39.05	10/02/48	448,639	PWLB	Maturity
28/01/09	10,000,000	4.3	40.28	10/05/49	447,187	PWLB	Maturity
28/01/09	20,000,000	4.4	32.28	10/05/41	864,047	PWLB	Maturity
28/01/09	10,000,000	4.45	26.28	10/05/35	422,445	PWLB	Maturity
28/01/09	25,000,000	4.35	44.28	10/05/53	554,047	PWLB	Maturity
28/01/09	25,000,000	4.35	43.28	10/05/52	742,947	PWLB	Maturity
28/01/09	24,400,000	4.35	42.28	10/05/51	741,511	PWLB	Maturity
28/01/09	30,796,871	4.55	25.78	10/11/34	677,035	PWLB	Maturity
TOTAL	205,666,871				7,329,391		
New Loans							
21/01/09	60,470,000	1.17	1	21/01/10		PWLB	Maturity
28/01/09	40,000,000	1.55	2	10/08/10		PWLB	Maturity
28/01/09	50,000,000	2.11	3	10/08/11		PWLB	Maturity
28/01/09	55,000,000	2.59	4	10/08/12		PWLB	Maturity
TOTAL	205,470,000						

8. Looking at the restructuring in more detail:
- 21 January – 5 PWLB loans totalling £60.47m restructured to a 1 year loan at 1.17%. This produces a saving of £2,880,173 over a 12 month period.
 - 28 January – 7 PWLB loans totalling £145.20m restructured over 2, 3 and 4 years at 1.55%, 2.11% and 2.59%. This produces a total saving of £12,845,061

The strategy will be to replace these loans in the medium term at a similar or lower level or reduce cash balances.

Performance summary

9. Overall in 2008-09 the average rate of interest paid reduced from 5.64% to 5.51%.

INVESTMENTS

10. Balances at 31 March 2009

During 2008-09 the average daily balance was £420m compared with £325m in 2007-08 and £308m in 2006-07. Much of this increase related to the Superannuation Fund Committee's decision to hold cash and not distribute it to equity or property managers. This was a highly beneficial financial decision estimated at saving the Fund around £40m. In late 2008-09 £70m of cash was put out to equity managers and the Superannuation Fund Cash balance at 31 March 2009 was £103.3m.

11. Icelandic Deposits

- (1) Of the total of £50.35m around £1m relates to the Fire Authority and £16m to the Pension Fund. The estimated loss based on the CIPFA calculations is in total £4.5m. The latest position on the Icelandic deposits is:
- Heritable has £18.35m of KCC deposits currently trapped. This is a UK domiciled bank and the insolvency process is therefore being run by Ernst & Young under UK legislation. This bank retained strong ratings until 30 September but due to human error a deposit of £3.3m was placed for 30 days on 1 October. KCC is one of 2 local authorities representing local authority creditors on the Creditor Committee but we cannot give specific information due to confidentiality provisions. It can be said that this is a well managed administration of what was a viable bank and the base case return

is now published between 70-80p in the pound. This is a prudent recovery estimate.

- Landsbanki and Glitnir has £17m and £15m of KCC deposits respectively currently trapped. KCC is with the London Borough of Barnet leading the recovery process in Iceland with legal advice from Bevan Brittan and financial advice from Ernst & Young. In the last 2 months the local authority creditors have also started to work closely with HM Treasury. Again confidentiality provisions limit what can be said but it is now in the public arena that under Icelandic law depositors are preferred creditors and are therefore in a strong recovery position.
- (2) Whilst public attention has focussed on the local authority exposure to Iceland this is tiny in comparison with the exposure of major bond holders and the Western banks to Iceland. Western banks have exposure of £60bn to Iceland.

The exposure to financial loss on these Icelandic deposits needs to be put in the context of base budget savings on Treasury Management in excess of £70m over recent years.

12. Current Balances

- (1) The analysis of our cash as at 5 June the Council's Cash position was:

Institution	Exposure (£m)	%
UK Government (DMO)	351.0	68
UK Banks	60.0	12
UK Building Societies	42.10	8
Belgian Bank	10.0	2
Iceland Bank	50.35	10
TOTAL	513.45	100%

A full list of deposits is attached in the Appendix.

- (2) While there is a clear reduction in diversification towards holding in the Debt Management Office (DMO), there remains cash previously deposited in UK banks, building societies and foreign banks.
- (3) In October we had £127m on deposit with Irish financial institutions. This was all on short term deposits and this has been reduced to zero, well in advance of the significant problems which have now affected Ireland.

- (4) Our sole overseas exposure outside Iceland is now with Dexia Bank which is a Belgium based local authority bank and the largest shareholder in CDC the French State bank. This deposit has been restructured to bring it within the guarantee provided by the French / Belgian and Luxembourg Governments.

PERFORMANCE

13. The investment return achieved during the year was 4.59% compared with the 7 day LIBID benchmark of 3.69%. From 8 October all new and maturing deposits have been placed with the Debt Management Agency which is part of the Treasury. Interest rates are very low but funds are subject to UK Government guarantee.

INTERNAL CONTROL

14. Immediately after the Icelandic banks collapse the Chief Executive and Director of Finance commissioned PwC to undertake a review of treasury management activities. The main failing identified relates to a £3.3m transaction with Heritable which was made after they should have been removed from the counterparty list-management identified this transaction before PwC commenced their work.
15. Since 9 October we have used the DMO for new and maturing funds. A return to dealing with other financial institutions will only happen when all the issues identified in the PwC report have been addressed.
16. The main actions being taken are:
 - (1) Appointment of a Treasury & Investments Manager – this is a new post at a senior level which will have prime responsibility for treasury management. A permanent appointment was made on 12 June following the use of an interim manager. This post will report to a post of Head of Investments & Pensions – redefining a post reporting directly to the Director of Finance.
 - (2) External Adviser – Arlingclose have been commissioned to advise on investment issues for a 6 month period. Their remit is focussed on assisting KCC in moving forward with a more diversified investment strategy (which Cabinet will agree), rewriting the Treasury Management Manual, reviewing the detailed operational procedures below the Treasury Manual and ensuring that all specific issues raised by PwC are addressed. The high level action plan is attached in Appendix 2.

GOVERNANCE

18. The Council's Treasury Strategy was agreed by County Council as part of the MTP process and implementation is the responsibility of the Director of Finance in consultation with the Cabinet Member for Finance. An annual report was made to this Committee.
19. As set out in the MTP paper treasury policy decisions will be taken by Cabinet. It is proposed that this Committee will now receive quarterly reports on Treasury management.
20. To support this work a Treasury Advisory Group has been established which will take on the advisory role played by the Economic Management Group since October 2008.
21. The draft minutes of the first meeting of the Treasury Advisory Group on 14 May are attached in Appendix 3.

RECOMMENDATION

22. Members are asked to note this report.

Nick Vickers
Head of Financial Services

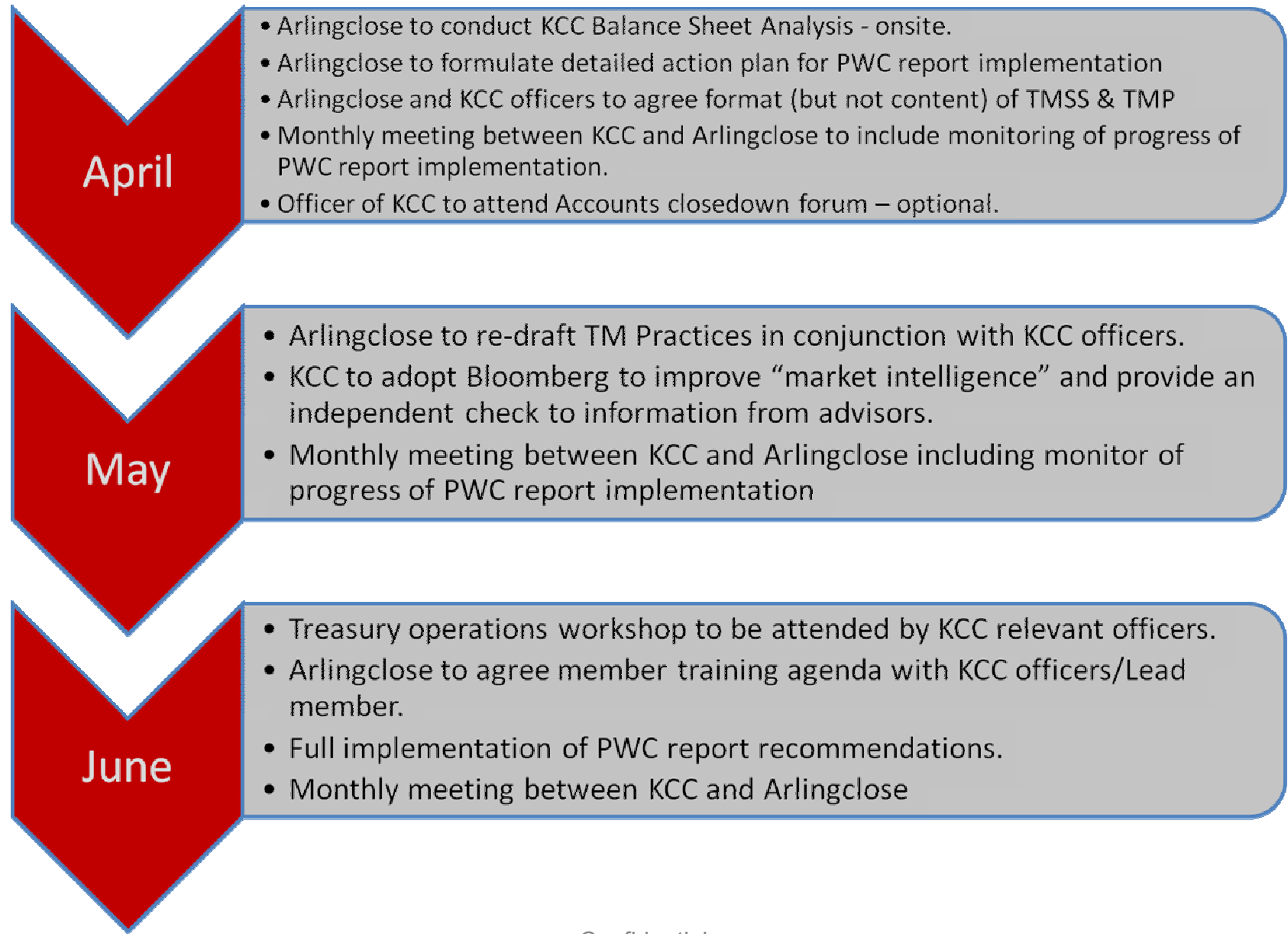
KCC Deposits Portfolio at 5 Jun

Instrument Type	Counterparty	Amount
Fixed Deposit	Dexia Bank	£10,000,000.00
	Total Belgian Bank Deposits	£10,000,000.00
LIBOR Fixed Deposit	Glitnir	£5,000,000.00
Fixed Deposit	Glitnir	£5,000,000.00
Fixed Deposit	Glitnir	£5,000,000.00
Fixed Deposit	Heritable Bank Ltd	£3,250,000.00
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00
Fixed Deposit	Heritable Bank Ltd	£2,000,000.00
Fixed Deposit	Heritable Bank Ltd	£4,600,000.00
Fixed Deposit	Heritable Bank Ltd	£5,000,000.00
Fixed Deposit	Heritable Bank Ltd	£1,500,000.00
Fixed Deposit	Landsbanki Islands	£5,000,000.00
Fixed Deposit	Landsbanki Islands	£2,000,000.00
Fixed Deposit	Landsbanki Islands	£5,000,000.00
Fixed Deposit	Landsbanki Islands	£5,000,000.00
	Total Icelandic Bank Deposits	£50,350,000.00
Callable Deposit	Barclays Bank	£5,000,000.00
Callable Deposit	Barclays Bank	£5,000,000.00
Fixed Deposit	Cater Allen Private Bank	£2,000,000.00
Fixed Deposit	Cater Allen Private Bank	£5,000,000.00
Fixed Deposit	Cater Allen Private Bank	£5,000,000.00
Fixed Deposit	Cater Allen Private Bank	£8,000,000.00
Escalator	HBOS	£5,000,000.00
Callable Deposit	HSBC	£5,000,000.00
Callable Deposit	Lloyds TSB	£5,000,000.00
Callable Deposit	Lloyds TSB	£5,000,000.00
Callable Rate Flipper	Royal Bank of Scotland	£5,000,000.00
Fixed Deposit	Royal Bank of Scotland	£5,000,000.00
	Total UK Bank Deposits	£60,000,000.00
Fixed Deposit	Chelsea Building Society	£5,000,000.00
LIBOR Fixed Deposit	Nationwide BS (formerly Dunfermline Building Society)	£5,000,000.00
Fixed Deposit	Nationwide BS (formerly Dunfermline Building Society)	£5,000,000.00
Fixed Deposit	Nationwide Building Society	£2,100,000.00
LIBOR Fixed Deposit	Nationwide Building Society	£5,000,000.00
LIBOR Fixed Deposit	Principality Building Society	£10,000,000.00
LIBOR Fixed Deposit	Principality Building Society	£5,000,000.00
Fixed Deposit	Skipton Building Society	£5,000,000.00
	Total UK Building Society Deposits	£42,100,000.00
Fixed Deposit	Debt Management Office	£600,000.00
Fixed Deposit	Debt Management Office	£1,250,000.00
Fixed Deposit	Debt Management Office	£3,000,000.00
Fixed Deposit	Debt Management Office	£4,000,000.00
Fixed Deposit	Debt Management Office	£4,000,000.00
Fixed Deposit	Debt Management Office	£4,400,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,000,000.00
Fixed Deposit	Debt Management Office	£5,550,000.00
Fixed Deposit	Debt Management Office	£6,000,000.00
Fixed Deposit	Debt Management Office	£6,000,000.00
Fixed Deposit	Debt Management Office	£6,000,000.00
Fixed Deposit	Debt Management Office	£6,000,000.00
Fixed Deposit	Debt Management Office	£6,000,000.00

KCC Deposits Portfolio at 5 Jun

Fixed Deposit	Debt Management Office	£7,000,000.00
Fixed Deposit	Debt Management Office	£7,250,000.00
Fixed Deposit	Debt Management Office	£7,850,000.00
Fixed Deposit	Debt Management Office	£8,000,000.00
Fixed Deposit	Debt Management Office	£8,100,000.00
Fixed Deposit	Debt Management Office	£8,600,000.00
Fixed Deposit	Debt Management Office	£8,800,000.00
Fixed Deposit	Debt Management Office	£10,000,000.00
Fixed Deposit	Debt Management Office	£12,000,000.00
Fixed Deposit	Debt Management Office	£12,000,000.00
Fixed Deposit	Debt Management Office	£14,000,000.00
Fixed Deposit	Debt Management Office	£16,000,000.00
Fixed Deposit	Debt Management Office	£22,600,000.00
Fixed Deposit	Debt Management Office	£23,000,000.00
Fixed Deposit	Debt Management Office	£26,000,000.00
Fixed Deposit	Debt Management Office	£27,000,000.00
Fixed Deposit	Debt Management Office	£40,000,000.00
	Total UK Govt. Deposits	£351,000,000.00

Grand Total of Deposits**£513,450,000.00**



July

- Arlingclose to conduct ½ day training for members – low medium and high return scenarios.
- Adoption by Council of agreed TMSS following training.
- Monthly meeting between KCC and Arlingclose.

August

- Arlingclose staff to oversee implementation of new TMSS and TM Practices onsite - optional.
- Monthly meeting between KCC and Arlingclose

September

- Monthly meeting between KCC and Arlingclose
- Treasury Operations Workshop to be attended by KCC relevant officers
- Monthly meeting between KCC and Arlingclose to review performance of Arlingclose over the contract term.

Kent County Council

TREASURY ADVISORY GROUP

Notes of a meeting of the Treasury Advisory Group held on Thursday 14 May 2009 at Sessions House, County Hall, Maidstone.

PRESENT: Mr N J Chard (Chairman), Mr A J King, Mr E E C Hotson, Mr J Simmonds and Mr D Smyth.

IN ATTENDANCE: Ms L McMullan (Director of Finance), Mr M Pickering (Arlingclose) and Mr G Mills (Democratic Services).

1. Terms of Reference

(1) The Group noted its Terms of Reference, governance arrangements and membership as follows:-

- a. The Treasury Advisory Group will be responsible for advising the Cabinet and the Director of Finance on treasury management policy within KCC's overarching Treasury Management Policy
- b. The Group will meet on a quarterly basis and at such other times of the year as deemed necessary by the Director of Finance or the Cabinet
- c. The membership of the Treasury Advisory Group will comprise:
 - i. The Cabinet Member for Finance (Chairman)
 - ii. Three Members (one from each political group represented on the Council) appointed by Group Leaders (not necessarily those Members appointed to serve on the IMG on Budgetary Issues)
 - iii. The Deputy Leader of the Council
 - iv. The Chairman of the Corporate Policy Overview Committee
 - v. The Chairman of the Superannuation Fund Committee

- d. The Director of Finance and/or the Head of Financial Services will attend all meetings of the Advisory Group
- e. Meetings of the Advisory Group will be held in private because of the commercially sensitive nature of the information being discussed
- f. Following each meeting of the Treasury Advisory Group, a summary of policy recommendations made will be prepared for the Cabinet's consideration. Following the Cabinet discussion, the outcomes will be reported in the usual way in accordance with the Constitution

(2) In relation to paragraph (f) above the Group agreed that as well as a copy of meeting notes being forwarded to the Cabinet for consideration following which a copy would also be forwarded to the Cabinet Scrutiny Committee and to the Governance and Audit Committee.

2. Cash Position Statement

(1) Ms McMullan and Mr Pickering updated the Group on the cash holdings of KCC as of 5 May 2009. This highlighted the fact that in accordance with previously agreed actions new and maturing monies had been deposited with the Debt Management Office and as a direct result diversification had reduced. KCC money remained with other banks and building societies where contracts were properly entered into and that meant significant risk remained given the current financial climate. The report also set out the actions in place to implement the recommendations made previously in the PricewaterhouseCoopers report.

(2) Following discussion the Group noted the following:-

There are now two main priorities:

- To prepare options on counter party strategy moving forward for members. The current use of the Debt Management Office is not a viable long term strategy. Extensive work is underway on alternatives focussing on guaranteed deposits.

- To fully implement the recommendations of the PwC report and the Audit Commission report. It should be noted on the latter that KCC already measures up very well against the good practices identified.

(3) To achieve these objectives the following is now underway:

- Appointment of a Treasury & Investment Manager- this is a new post at a senior level which will have the prime responsibility for treasury issues moving forward. If a permanent appointment cannot be made we will implement an interim solution.
- External Consultant - an experienced treasury professional has been undertaking detailed due diligence on Money market Funds and in-particular the new Government guaranteed Money Market Funds.
- External Adviser- Arlingclose have been commissioned to advise on investment issues for a 6 month period. Their remit is focussed on assisting KCC in moving forward with a more diversified investment strategy (which will be for Cabinet to agree), rewriting the Treasury manual to reflect the new strategy and specifically addressing technical improvements identified by PwC in their review.
- Governance - all decisions on revising the counterparty policy will be taken through the Treasury Advisory Group, for consultation and to Cabinet for decision.

3. Implementation of recommendations of PricewaterhouseCoopers, CIPFA and Audit Commission reports – detailed Action Plan

(1) The County Council has engaged the services of Arlingclose which is an independent financial advisory company with particular expertise of working in the public sector. Arlingclose is working with relevant officers of the County Council in

order to particularly advise on the implementation of the findings of the PricewaterhouseCoopers report and the recommendations of the CIPFA and Audit Commission reports. Arlingclose have classified the various recommendations made in these reports under six general categories, these being skills, resources, documentation, control, monitoring and strategy.

(2) Ms McMullan said that over the coming months the Council would need to reach a view on what its Treasury Management Strategy should be and to review its current Risk Strategy and whether that needed to be changed. For the immediate future she said that there needed to be a focus on developing training in treasury management activity for both Members and officers and the need to develop a framework of working protocols and to develop monitoring procedures to ensure that these were adhered to. Arlingclose would also be working with KCC officers to redraft the current Treasury Management Practices and would be advising the Council on the adoption of the "Bloomberg System" which would allow the County Council to have direct access to market information and intelligence and provide an independent check to information from advisors. Ms McMullan also said that as mentioned in paragraph 2 (3) above the Financial Services Team is to be strengthened by the appointment a Treasury and Investment Manager who would be working directly to the Head of Financial Services. However this position is in the meantime being fully covered by an interim section head.

(3) During the course of discussion Members of the Group said that the Council's approach to Treasury Management should be around the need to protect capital, spread risks and have flexibility. It was also said that the Council should approach this work on the assumption of having lower returns as then there would not be pressure to take unnecessary risks. At the same time there was a need to maximise income but that had to be done within a known risk framework. Mr Pickering said that current KCC policies reflected a risk adverse approach and the review of its Treasury Management policies and strategies showed that there were no significant gaps in its current processes and procedures.

(4) The Group also noted that as part of the work being undertaken by Arlingclose there would be training for both Members and KCC officers aimed at broadening their understanding and skills relevant to their roles. It was also recommended that

relevant officers should be encouraged to undertake the CIPFA Treasury Management qualification and that consideration should be given to other relevant professional training from established financial training companies.

(5) During the course of discussion it was said that the training to be provided had to be at a sufficient level so as to give a clear understanding of treasury management policies and strategies in order to enable both Members and officers to monitor these activities fully within KCC. The Group agreed a date would be arranged for this training to be undertaken on a day in July and that at some future date this training could also be offered for Members of the Cabinet and Cabinet Scrutiny Committee.

4. Dates of future meetings

In accordance with its agreed Terms of Reference the Group confirmed that it would be holding meetings quarterly but additional meetings could be arranged if and when necessary. On that basis the Group would meet again during September on a date to be confirmed.

This page is intentionally left blank

By: David Cockburn, Executive Director, Strategy, Economic Development & ICT

To: Governance and Audit Committee – 30 June 2009

Subject: ANNUAL AUDIT AND INSPECTION LETTER

Classification: Unrestricted

SUMMARY

This report attaches a copy of the Audit Commission's Annual Audit and Inspection Letter.

FOR INFORMATION

1. Introduction

1.1 This report attaches a copy of the Annual Audit and Inspection Letter issued by the Audit Commission.

2. Status of the Annual Audit and Inspection Letter

2.1 The Annual Audit and Inspection Letter provides an overall summary of the Audit Commission's assessment of the authority. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.

2.2 The Annual Audit and Inspection Letter has been prepared by the Audit Commission's CAA Lead for Kent, Claire Bryce-Smith. Her representatives will attend this meeting to present the report and answer any questions.

2.3 It is addressed to Members as it is the responsibility of the council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. It was presented to Cabinet in April.

2.4 The Annual Audit and Inspection Letter provides an overall summary of the Audit Commission's assessment of the council using performance indicators covering the financial year 2007/08 and the Direction of Travel which includes service improvements up to December 2008.

3. Publication

3.1 The Audit Commission is required to publish KCC's Annual Audit and Inspection Letter on its website. KCC has done the same on its website and circulated it to all Members of the County Council on 31 March.

3.2 The report is very positive and your attention is drawn to page 3 of the Annual Audit and Inspection Letter which sets out the key messages and to paragraph 15 on page 6 which is a direct quote from the Direction of Travel statement.

4. Recommendation

4.1 Members are asked to NOTE the report.

Contact officer: Sue Garton, County Performance and Evaluation Manager, Chief Executive's Department. Tel: 01622 22(1980). Email: sue.garton@kent.gov.uk

Audit and Inspection Letter

Kent County Council

Audit 2007/08

March 2009



Contents

Key messages	3
Purpose, responsibilities and scope	4
How is Kent County Council performing?	5
The audit of the accounts and value for money	12
Looking ahead	18
Closing remarks	19

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Key messages

- 1 The Council has continued to sustain its strong improvement record from an already high base. It is one of only 26 councils in the country to achieve both the highest, four star rating for overall performance under the comprehensive performance assessment framework (CPA), as well as highest direction of travel judgement, 'improving strongly'.
- 2 'Good' performance has been sustained across the four component service blocks of CPA applicable to a County Council. Services for children and young people; adults social care; environment and cultural services all performed well, maintaining their respective level 3 (out of a possible 4) ratings.
- 3 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. It has sound, effective arrangements in place across all areas of the use of resources assessment and overall is assessed as 'performing strongly'. Thirty three councils in the country performed at this level in 2008. An unqualified opinion was given on the Council's accounts for the year ended 31 March 2008.
- 4 Direction of travel continues to be strong overall with improvements in all priority areas. In particular this year we have acknowledged achievements in educational attainment, outcomes from the vocational skills and learning programmes and in general the Council's contribution to wider community outcomes, which have been strong and broad in their remit. However, whilst recognising improvements in highways maintenance, a clear public priority area for improvement and recycling rates, the cost of waste disposal remains high in comparison with other similar authorities.
- 5 Annual performance assessments by other inspectorates published this year have continued to be positive. Children's service maintained its grade 3 (out of a possible 4) rating and adult social care sustained its three stars.
- 6 Outcomes from published inspection reports this year have been good. The Audit Commission's tri-annual inspection of corporate effectiveness found the Council to be 'performing strongly', the highest rating. The joint inspectorate assessment of children's services (JAR) was good and the enhanced youth service inspection found that the Council effectively secured the provision of youth work.

Action needed by the Council

- 7 We have not identified any areas where specific action is required, over and above those mentioned elsewhere in this report or in other reports already issued to the Council.

Purpose, responsibilities and scope

- 8 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter. (It also includes the results of the most recent corporate assessment.)
- 9 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 10 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. [In addition the Council is planning to publish it on its website].
- 11 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 12 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 13 We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Kent County Council performing?

14 The Audit Commission's overall judgement is that Kent County Council is 'improving strongly' and we have classified Kent County Council as 'four star' in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1 Overall performance of councils in CPA



Source: Audit Commission - Percentage figures may not add up to 100 per cent due to roundings.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	4 star
Corporate assessment/capacity to improve	4 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	3 out of 4
Use of resources*	4 out of 4
Environment	3 out of 4
Culture	3 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel statement

15 Kent County Council is 'improving strongly'. Educational attainment of children has improved in all Key Stages with significant improvements in some areas, including attainment of care leavers at Key Stage 4. Participation in, and outcomes from an ambitious vocational skills and learning programme have increased, with numbers in apprenticeships exceeding national levels. There has been a sustained improvement in adults' social care from an already high base. Recycling and highways maintenance have increased but the cost of waste disposal remains high. Contributions to wider community outcomes are strong. Road accidents have reduced significantly. Crime continues to fall with less young people entering the youth justice system, exceeding the reduction target. With partners, the number of empty homes brought back into use has exceeded stretched targets. Easier local access to a range of public services continues to transform, including through the expanding Gateway programme. The Council continues to provide excellent value for money. Strong leadership and capacity, coupled with a consistent and effective approach to performance management and improvement planning, ensures the Council is well placed to sustain its strong track record and deliver future improvements.

How is Kent County Council performing?

Summary report

- 16 The Council's improvement rate compares well to others. Around 67 per cent of Kent's best value performance indicators¹ improved between 2006/07 and 2007/08, which is at the top of the average range for similar authorities. Notable improvements include top quartile performance in 15 year olds achieving five or more GCSE grades A* to C; less crime; fewer accidents and more road maintenance leading to higher satisfaction amongst residents. However the Council still performs in the worst 25 per cent of similar authorities in the cost per tonne for municipal waste disposal in 2007/08.
- 17 The Council continues to make effective contributions to wider community outcomes by itself and in partnership. Road accidents have reduced significantly; crime continues to fall; and less young people are entering the youth justice system, exceeding the five per cent reduction target set by the Youth Justice Board. The number of safety checks carried out in the homes of vulnerable people by the 'Handy Van' service almost doubled in 2008 to 4,769. The Council has achieved level three of the Equality Standard for local government this year, as well as an improved rating in the Stonewall Workplace Equality Index from 37th to 29th. It has also retained its accreditation as two ticks positive for the sixth year, demonstrating a sustained positive commitment to employing disabled people.
- 18 Access to a range of public services continues to be made easier. The Gateway programme has continued to expand with new innovative retail type shop fronts opening in Thanet, Tunbridge Wells and Tenterden, providing more integrated access for local people to public sector as well as voluntary sector services. New technologies are also being piloted through health and social services, enabling more people to live independently. In addition, website information is easier to access through the promotion of interpreting services and the implementation of web accessibility standards, particularly across the 60 social care sites. ICT investments continue to support a wide range of community benefits such as Kent Connects (a single public service network which enables partners to share information securely), Explore Kent, Cluster Web and Kent Card.
- 19 A brief summary of improvements across the Council's 'Towards 2010' priority areas is set out in the following paragraphs.
- 20 There has been good progress against the 'learning for everyone' priority. Educational attainment of children has improved in all Key Stages with significant improvements in some areas, including contextual value added outcomes for Key Stage 2 to 4 (now significantly above the national average) and attainment of care leavers at Key Stage 4. The proportion of looked after children that leave care with at least one GCSE is better than the national picture, but remains lower than average for other children in Kent. This gap however, continues to close and importantly, the proportion of looked after children who do not sit any examinations has significantly reduced. The broader 14-19 year old strategy was rated as a major strength by Ofsted. Broader performance was also recognised including, that the large majority (82.7 per cent) of Kent's schools were 'good' or 'outstanding' in ensuring pupils were protected from bullying, racism or other forms of harassment.

¹ As used within the Audit Commission's Performance Information Profile

- 21** Participation in, and outcomes from the ambitious vocational skills and learning programme has increased, with numbers in apprenticeships exceeding national levels. Placements as part of the Kent Success programme have included apprenticeships in childcare, health and social care, business and administration, customer service and catering. Linked to accredited qualifications, these provide opportunities for gaining an extensive range of skills in supported work placements. Significant reductions have been achieved in those not in education, employment or training (NEETs) - the lowest number for 4 years. Creating pathways into employment for young people is delivering positive outcomes. Out of a total of 526 unemployed young people aged 16 to 17 who joined a 17 week, Entry to Employment training programme, 242 found employment or progressed to further training, and a further 154 were still making positive progress. Around 130 projects funded through the successful £24 million Interreg IIIA, and the URBAN programme is supporting more than 90 jobs and skills programmes in Kent improving opportunities for all. The 'Trading up Initiative' has seen more than 300 people from deprived communities complete skills training courses. There are also major infrastructure projects in deprived areas like Kent Thameside and Thanet to support the growth of homes, jobs and communities.
- 22** Public satisfaction with the condition of Kent's roads, pavements and streetlights has improved. The successful Project Pothole, April 2008, resulted in the repair of more than 11,300 potholes. The roll out of the Kent Freedom pass continues to improve accessibility and independence for students' aged 11 to 16, providing free travel on bus services in Kent for an annual fee of £50. Progress against the 'enjoying life' priority continues with the 2008 'Kent School Games', including the Disability Schools Games, which involved some 400 young people this year. In addition the latest satisfaction survey, showed improved satisfaction with libraries, increasing numbers of web-based renewals and opening hours.
- 23** Progress continues in achieving 'environmental excellence and high quality homes'. The number of long term empty properties brought back into use almost doubled in the last year, from 172 the previous year, to 339 as a result of joint work with District Councils in Thanet, Dover and Swale. Two country parks, Brockhill and Trosley, were awarded the Green Flag award for recreational green spaces, and the percentage of new KCC buildings designed to at least BREEAM 'very good' standard rose from 60 per cent to 80 per cent over the last year. However despite improvements in recycling and composting rates, and reducing amounts of household waste collected, these remained within the worst performing quartiles when compared with other similar Councils. Similarly the cost of waste disposal remained in the worst performing quartile as measured by the 2007/08 best value performance indicator.

How is Kent County Council performing?

- 24** A broad range of outcomes are being delivered against the 'improving health, care and well being' priority. Adult Social Care services sustained its top three star rating in this year's annual performance assessment undertaken by the Commission for Social Care Inspection (CSCI). In line with its priority, the number of people supported by community based services to live independently, increased by a thousand to 32,983 over the last year and access to and numbers utilising direct payments continues to increase. Funding from the Brighter Futures Group project is also encouraging active older people to provide support to older people who need it. More children are accessing speech, and language therapy services and more pregnant women are attending and completing birth and parent craft workshops as a result of better integration of services, for example in Children's centres. Just over 60 per cent of Kent schools have achieved Healthy school status, with 99 per cent of schools participating in the programme.
- 25** The Council achieves excellent value for money. Capacity to deliver priorities is good and improvement planning and performance management remains a strength. Around three quarters of the Kent Agreement targets has been achieved, meaning the partnership is currently on track to secure in excess of £20 million in performance reward grant. Delivery partnerships and procurement are used well to increase capacity. There are no failures in corporate governance or continuous improvement that would affect the Council's strong track for delivering future improvements.

Corporate assessment

- 26** Informing the direction of travel this year was the corporate assessment of the Council, published in June 2008. The corporate assessment assesses how well the Council engages with and leads its communities, delivers community priorities in partnership with others and ensures continuous improvement across the range of its activities. A brief summary of the report is set out in the proceeding paragraphs.
- 27** The corporate assessment found the Council to be 'performing strongly' overall. The report highlighted that the Council, with its partners had been early and active in developing clear and appropriate ambitions and priorities to meet the strategic challenges facing the county. There was clear recognition that the Council often led beyond the norm for local government and was an outstandingly effective advocate for Kent at all levels, including internationally. It was found to be open to new ideas and active in trying them out, for example in developing Kent TV as a community resource. Well-established partnership work was bringing real improvements to quality of life for local people. Ground-breaking recent pilot projects embraced new technology and aimed to personalise services. The Council had for ten years been seeking excellence and its organisation was impressive, high-quality, responsive and gives good value-for-money.
- 28** Areas for improvement were highlighted around the need for a more inclusive and listening approach; ensuring consistent high standards in equality practice across all directorates; and delivering improvements in lower performance areas, such as recycling, refuse volumes and air quality and in areas such as complaints handling.
- 29** The full report can be accessed via the Commission's website at www.audit-commission.gov.uk.

Service inspections

- 30** No Audit Commission service inspections were undertaken this year.
- 31** An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- An annual performance assessment of children's services.
 - An annual performance assessment of adult social care services.
 - A joint area review of children's services.
 - An enhanced youth inspection.
- 32** A summary of the overall judgements for each assessment is included in the preceding paragraphs.
- 33** The annual performance assessment of Kent County Council's services for children and young people judged their overall effectiveness at a grade 3 (out of a possible 4). The assessment found that the Council delivers services consistently above minimum requirements for its children and young people, with innovative practice in a number of areas. The council's contribution to improving outcomes in the areas of being healthy; making a positive contribution; staying safe; enjoying and achieving and achieving economic well being were all 'good'. The Council had 'excellent' capacity to improve its services for children and young people, including the management of these services. The full assessment can be accessed via the inspectorate's website at www.ofsted.gov.uk.
- 34** The Commission for Social Care Inspection's annual performance assessment of adult social care services judged there to be 'good' delivery of outcomes with 'excellent' capacity to improve services, sustaining the three stars (out of a possible three stars) rating overall. The full assessment can be accessed via the inspectorate's website, www.csci.gov.uk.
- 35** Undertaken at the same time as the corporate assessment was the joint inspectorate review of services for children and young people in Kent, the Joint Area Review (JAR). The inspection's focus was on the contribution of local services in ensuring that children and young people:
- at risk or requiring safeguarding were effectively cared for;
 - who were looked after achieved the best possible outcomes;
 - with learning difficulties and/or disabilities achieved the best possible outcomes.
- 36** In addition the inspection assessed the impact of the partners' strategy on reducing variability across the county in participation and attainment by the age of 19; and in reducing the teenage pregnancy rates in targeted areas.

How is Kent County Council performing?

- 37 The JAR found 'good' contributions of local services to improving outcomes for children who were looked after; for children and young people with learning difficulties and/or disabilities; as well as for those at risk or requiring safeguarding. The impact of the partners' strategy on reducing variability across the county in participation and attainment by the age of 19 was 'good', but 'adequate' overall in reducing the teenage pregnancy rate. Both the management of services for children and young people and the capacity to improve further were assessed as 'outstanding'. A copy of the full inspection report can be accessed through the inspectorate's website at www.ofsted.gov.uk.
- 38 As part of the JAR, an enhanced youth service inspection was also undertaken. This found that overall, the Council effectively secured the provision of youth work. The quality of youth work was 'good' with some 'outstanding' features - in particular the quality of the curriculum and resources. Leadership and management was 'good'. A copy of the full report can be accessed via the inspectorate's website at www.inspectorates.homeoffice.gov.uk/hmiprobation/.
- 39 A youth offending service inspection was also carried out this year which informed the JAR and enhanced youth services inspection. Whilst no overall categorisation of performance is given, judgements are made against each of the five core areas of work of the youth offending team. The assessment found that management and leadership were 'good', along with the services work in courts. Work with children and young people subject to custodial sentences, with victims and in restorative justice was found to be 'adequate'. In the last remaining core area of work covering children and young people in the community outcomes of work were found to be 'good', including work with those who had offended. Work with parents/carers, and with those children and young people at risk of offending was found to be 'adequate'. A copy of the full report can be access via the inspectorate's website at www.inspectorates.homeoffice.gov.uk/hmiprobation/.

The audit of the accounts and value for money

- 40 As your appointed auditor, I reported separately to the Governance and Audit Committee in June 2008 on the issues arising from the 2007/08 audit. I issued my audit report on 28 July 2008, providing an unqualified opinion on your accounts including those of the superannuation fund. In addition, I gave an unqualified conclusion confirming that the Council has put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources.

Accounts

- 41 The accounts presented for audit were of a good standard and had been prepared in accordance with proper professional practice. The financial statements were produced within 10 weeks of the year end and were presented for audit on the 6 June 2008. A small number of mis-statements were identified during our work, mainly related to disclosure notes, the majority of which were corrected in the published accounts. To enhance the Council's existing arrangements of accounts production we reported areas where disclosures in the accounts in accordance with recommended practice could be improved. The prompt production of the accounts coupled with officers' focused assistance during the audit resulted in the early issue of the audit opinion.
- 42 Every business organisation seeks to implement a system of controls within their key financial systems to ensure the completeness and accuracy of financial reporting in the most cost effective way. A sound effective control environment operated during the financial year. We assessed the Council's general information technology control environment and judged it as 'low risk'. We tested and concluded that we could rely on all of the key financial systems except for the system processing domiciliary care payments, where we identified that the current control arrangements need strengthening. Work is in hand to address this. I carried out additional testing in this area to satisfactorily support the entries in the financial statements.
- 43 A number of local government electors contacted me as part of my audit of the 2007/08 accounts. I have dealt with all matters raised and there are no matters that I need bring to members' attention. An objection to the accounts was made requesting that the auditor issue a report in the public interest in respect of the expenditure on the Turner Centre. I am currently reviewing this and as such have not yet certified the completion of the audit.

Value for money

- 44 I am required to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. My conclusion is based on:
- the use of resources assessment;
 - data quality; and
 - findings of specific areas of audit risk.
- 45 I concluded that the Council has effective corporate arrangements in place for securing economy, efficiency and effectiveness in its use of resources and is delivering value for money at a consistently high level.

Use of resources assessment 2007/08

- 46 The use of resources assessment is an important component of the CPA framework. The use of resources score was derived from the assessments made by the auditor in the following areas:
- financial reporting (including the preparation of the accounts of the Council - paragraph 16- and the way these are presented to the public);
 - financial management (including how the financial management is integrated with strategy to support council priorities);
 - financial standing (including the strength of the Council's financial position);
 - internal control (including how effectively the Council maintains proper stewardship and control of its finances); and
 - value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 47 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2 Use of resources assessment 2007/08

Element	Assessment
Financial reporting	3 out of 4
Financial management	4 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	4 out of 4
Overall assessment of the Audit Commission	4 out of 4

Note: 1 = below minimum requirements - inadequate performance, 2= only at minimum requirements – adequate performance, 3 = consistently above minimum requirements – performing well and 4 = well above minimum requirements – performing strongly.

- 48 The Council has sound effective arrangements in place across all areas of the use of resources assessment and has maintained an overall assessment score of 'performing strongly'. The following paragraphs give a summary of the Council's arrangements.
- 49 The Council's external accountability is strong. Its annual plan is produced in a variety of formats to ensure it is accessible for Kent residents and summary accounts are included in a publication sent to all households. An environmental strategy has been in place since 2005 and the Council has analysed and reported on its environmental footprint. An action plan is in place to further reduce its carbon footprint in the future.
- 50 Arrangements for delivering the Council's strategic priorities are soundly based. The medium-term financial strategy, budgets and capital programme are well developed and monitoring is undertaken by management and members. The medium-term financial strategy is considered best practice and has been used by other bodies to improve their own strategies. The Council has robust budget monitoring arrangements which involve directorates, central finance, IMG and Cabinet on a regular basis. Financial and non-financial information is interlinked and presented in a comprehensive and transparent report for officers and members. There are good arrangements in place for managing the Council's asset base via the asset management plan and maintenance strategy. Senior officers and members make investment and disposal decisions based on thorough option appraisals. However, improvements need to be made in the wider use of asset management to support the Council's strategic priorities and partnership working in the tightening financial economy.

The audit of the accounts and value for money

- 51 The Council set a balanced budget and has a detailed medium-term financial strategy setting out the financial pressures and challenges it faces. Robust budget monitoring arrangements, including a set of locally developed financial health indicators, are used to maintain spending within budgets. For the current financial year, as at the end of January 2009, the Director of Finance forecasts gross revenue expenditure (excluding schools, but including asylum costs) of £2 million above budget, although proposed management action is expected to reduce this to £0.6 million underspend. Capital expenditure is forecast as £3.7 million under spend against a programme of £394 million.
- 52 In common with a number of other councils, Kent had a material sum of money invested in Icelandic Banks at the time of their collapse. The Council commissioned an independent review to examine if its treasury management policy had been followed. This concluded that on the whole it had, but some areas of non compliance were noted, although these would not have prevented the investment. The Council is taking appropriate action to recover its investment.
- 53 The arrangements for maintaining a sound system of internal control are well developed. The Governance and Audit Committee provides a robust challenge to officers and the Council's internal audit function is effective. Each directorate has a business continuity plans in place and the Council is developing a testing strategy for them. There is a robust risk management policy in place which is supported by detailed directorate and strategic risk registers. Risk management training has been provided to Governance and Audit Committee members and to officers with a further programme of training planned in 2008/09. The Council takes a proactive approach to the achievement of probity and propriety in the conduct of its business.
- 54 The Council's delivery of and arrangements to secure future value for money is strong. General performance is very good for the monetary input. Nursery school placements are high providing a good educational start for children. Fostering costs are low with substantial use of placements near a child's home. Recycling is improving and ambitious targets have been set in LAA2 (local area agreement) to improve value for money (VFM) in environment, bolstered by a waste incinerator that will make significant savings compared to landfill. Any areas of overspend that are identified are managed and plans put in place to address them, for example, on asylum seekers, an issue that particularly affects the county.
- 55 Efficiency gains targets have been exceeded and cumulative savings of £91 million were achieved by March 2008. The Council is adept at obtaining external funding and targeting spend to corporate priorities. The Council makes good use of CIPFA's online statistical service to monitor its position against other councils. The VFM Board takes collective responsibility as the Council's 'efficiency champion', and has enabled a range of VFM reviews looking at specific services where it was felt that VFM could be improved. Its commercial services are used to deliver procurement savings for the whole county and other public sector bodies. Over the last few years the service has been effective in reducing costs of service delivery and procurement savings.

Data quality

56 The Council's overall management arrangements for ensuring data quality are consistently above minimum requirements. There is a good balance between corporate oversight and delegation to directorates, where the responsibility rests for the accuracy of data quality, including sensitive areas such as child protection. There is now a data quality strategy in place that seeks to embed good practice in the organisation, as well as an effective network of data quality champions responsible for each directorate's delivery of the corporate policy. We have identified and reported a small number of areas to improve further the Council's arrangements.

Other use of resources work

57 Our audit and inspection plans for 2007/08 highlighted a number of areas where we needed to develop our understanding of the Council's arrangements. We have completed this work and there are no specific matters that we need to bring to members' attention. We have also reacted to developing events and provided an audit view as appropriate, for example, on severance payments. A brief summary is provided below.

- The Children's Trust is a major partnership for the Council. Our high level review concluded that appropriate governance arrangements were being developed. The Council and its partners have a partnership protocol which sets out the risks for different levels of partnership working and provides a framework for categorising and assessing risk and governance requirements. The arrangements set out that the Trust Board has shared accountability for the Trust including financial, legal and public accountability. The Ofsted and the Audit Commission joint review of children's and young people's services in June 2008 concluded that the Council and its partners had very good and wide-ranging safeguarding arrangements for children in place.
- We considered the Council's arrangements to ensure that effective governance arrangements operate for its partnership working. A Good Partnerships Guide has been prepared to guide officers in their work with partnerships. We reviewed this and confirmed it is in line with the CIPFA/SOLACE good practice guide. Internal Audit has carried out a sample review of partnerships and made a small number of recommendations for improvements to the directorates' approach to partnership categorisation and monitoring.
- The Council uses the Private Finance Initiative as a means of building its financial capacity and delivering improved services to its residents. We have considered the Council's planned accountancy treatment for two schemes and based on the information provided would not seek to challenge the treatment. Accounting for the schemes will need to be updated in light of the international financial reporting standards that will apply to local councils in the near future.

The audit of the accounts and value for money

- We reviewed a number of cases of officer departures from the Council to consider the robustness of arrangements and concluded that agreements entered into were not unreasonable. We have recommended the establishment of a clear process for future cases to ensure the timely involvement of statutory officers and to ensure that key matters are sufficiently documented.

Looking ahead

- 58 The public service inspectorates have developed a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 59 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 60 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

- 61 This letter has been discussed and agreed with the chief executive. A copy of the letter will be presented at the cabinet on 20 April 2009. Copies need to be provided to all Council members.
- 62 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
Corporate assessment report	June 2008
Annual Governance Report	June 2008
Opinion on financial statements	July 2008
Value for money conclusion	July 2008
Final accounts memorandum	September 2008 (draft)
Annual audit and inspection letter	March 2009

-
- 63 The Council has taken a positive and constructive approach to audit and inspection work, and we wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 64 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Claire Bryce-Smith
Comprehensive Area Assessment Lead

Darren Wells
District Auditor

March 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0844 798 7070.

© Audit Commission 2009

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

By: The Director of Finance
To: Governance and Audit Committee – 30 June 2009
Subject: DRAFT STATEMENT OF ACCOUNTS 2008-09
Classification: Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2008-09.

FOR DECISION

1. INTRODUCTION

- 1.1 The draft Statement of Accounts of the County Council for 2008-09 is attached. These need to be approved by Members by 30 June 2009, 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.
- 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 Cath Head, Chief Accountant, who will be happy to meet with any Member or group of Members to give a more detailed explanation of these Accounts. Alternatively, questions can of course be asked at this meeting.

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).
- 2.2 The format of the primary statements within the Accounts has not changed significantly to last year's.
- 2.3 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 1-4

- 2.4 The details of the revenue outturn are shown on Pages 1 and 2. This shows an underspend of £7.5m, less a £16m overspend on schools, giving a total overspend in the year of £8.7m. The reasons for these underspends have

been detailed in the monitoring reports throughout the year and will be in the Final Outturn report to Cabinet on 13 July.

- 2.5 The net income figures for the budget and outturn for the Operations, Resources and Skills Portfolio on page 1 of the Accounts are the result of funding for schools, and the corresponding expenditure is shown in the delegated schools budget line.
- 2.6 There has been no reduction in the level of general revenue reserves and these still stand at £25.8m. This is deemed to be an acceptable level based on the current budget and the Council's identified risks by the Director of Finance. Specific reserves and schools' reserves are detailed in paragraphs 2.23 to 2.25 in this report.
- 2.7 The capital expenditure for 2008-09 was £23.6m less than budgeted, which reflects the re-phasing of capital projects across all services. The capital reserves of £84.5m will be used to fund the re-profiling of the 2008-09 and future years' capital programme.
- 2.8 Schools have £9.5m of capital reserves.
- 2.9 The Insurance Fund continues to be fully funded, in accordance with Financial Reporting Standard (FRS) 12. However, a detailed review of the Insurance Fund will be carried out by the Director of Finance during this financial year.

Statement of Responsibilities Page 5

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

Annual Governance Statement Pages 6-10

- 2.11 The Annual Governance Statement identifies areas in which our governance arrangements can be strengthened and meets the requirements of the Accounts and Audit (Amendment) Regulations 2006 (A & A(A)R 2006) in relation to the publication of a statement on internal control.
- 2.12 We are responsible for putting in place proper arrangements for the governance of our affairs and facilitating the effective exercise of our functions including the management of risk. The attached Accounts therefore include such a statement on pages 6 to 10. It confirms that, during the financial year 2008-09, 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. This will be discussed in more detail elsewhere on this agenda.

Auditor's Report Pages 11-12

- 2.13 Within the Accounts and Audit Regulations 2003 we are required to open the accounts for public inspection. This enables any member of the public to inspect the Accounts, ask questions and to request copies of related documents where appropriate. The period of inspection for the 2008-09 Accounts commenced on the 8th June and ends on the 3rd July. The appointed auditor day is the 8th July where electors can request a meeting with the Auditor to raise questions about the Accounts.
- 2.14 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 2009 and its income and expenditure for the year ended 31 March 2009. 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 22 July, assuming no material errors are found that remain uncorrected. Pages 11-12 are blank to accommodate this report.

Accounting Policies Pages 13-16

- 2.15 Our accounting policies remain consistent with the Statement of Recommended Practice (SORP). There have been minor changes to these to accommodate the 2008 SORP changes, predominantly around financial instruments.

Income and Expenditure Account Page 17

- 2.16 The Income and Expenditure Account is accompanied by a set of explanatory notes. The account shows, in the format required by the Accounting Code of Practice, the income and expenditure for the year 2008-09. The revenue budget underspend in 2008-09 is transferred into the rolling budget reserve and is included in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund as part of the net transfer to/from earmarked reserves.
- 2.17 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 depreciation, impairment and deferred government grant credits within the net expenditure line for each of the service headings shown in the income and expenditure account. However, these charges do not impact on the Council Tax payer. The impact is therefore neutralised by entries made in the Statement of Movement on the General Fund Balance and can be seen in detail in the Reconciling Items for the Statement of Movement on the General Fund. 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.

2.18 Note 13 on page 31 details the turnover and profit/loss of Kent Top Temps Ltd, Kent County Facilities Limited trading as InsideOut and East Kent Opportunities LLP. 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 will be available at Companies House in due course.

Balance Sheet and Notes

2.20 The Balance Sheet statement sets out the financial position of the Authority as at 31 March 2009 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.

2.21 Long-term assets have increased by £125m. This is primarily due to the increase in the value of our fixed assets and in the current economic climate will seem strange. However, this can be explained by the following:

- Assets under construction have increased by £70m – these are valued at historical cost.
- Completed projects have added £29m of capital expenditure in year to land and buildings at historical cost. Revaluations will be carried out in 2009-10 to recognise the added value where expenditure was significant.
- An impairment review as at 1 April 2008 was carried out on properties with a remaining useful life of over 50 years and non operational properties. This produced an increase in property values of £19m.

2.22 Current Liabilities are up by £87m. This is due to an increase in temporary borrowing of £60m and in our level of general creditors as shown in Note 20.

2.23 Long-term liabilities have increased by £149m, which is predominantly due to:

- A decrease in our long-term borrowing of £19m
- An increase in our 'pension fund deficit' of £170m. Note 25 provides the information on this movement.

2.24 Our net worth has decreased from £804m to £719m. The gains and losses in our net worth are shown in the Statement of Total Recognised Gains and Losses (STRGL) on page 19 and reflect the movement in our net worth between 2007-08 and 2008-09. The make up of the various reserves, accounts and balances shown in the balance sheet is on page 21 and in more detail on pages 43 to 49 in Notes 23 and 24.

Total Movements in Reserves

- 2.25 Earmarked revenue reserves total £102m, including £7.5m in the rolling budget reserve. Cabinet will be considering the use of this reserve at its July meeting. Details of each of the earmarked reserves are shown on Pages 44 to 47 of the Statement of Accounts.
- 2.26 Schools' reserves have reduced by £16m in 2008-09. Schools now hold £52m of revenue reserves and £9m of capital reserves. In addition, there is £11.2m of unallocated schools' budgets that will be allocated to schools during 2009-10, based upon decisions by the Schools Forum and its sub-groups.
- 2.27 Capital reserves stand at £84.5m and are needed to fund the re-phasing of the 2008-09 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.

Cash Flow Statement Page 22

- 2.28 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 inflow of £5m.

Investments in Icelandic banks Pages 63-65

- 2.29 This note sets out, in detail, the accounting treatment required to account for monies held with Icelandic banks in 2008-09.

Pension Fund Accounts Pages 66-79

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

Glossary Pages 80-81

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

Other Issues

- 2.32 Each year, our external auditors have to produce an Annual Governance Report 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. The list is known as the Statement of Unadjusted Differences (SUD), and the report is formally known as the ISA260.

2.33 This year has again proved to be a significant challenge in light of the continued complex accounting for fixed assets and financial instruments (particularly in relation to Iceland). There were also changes identified in the SORP which have resulted in changes in accounting treatment and in some cases have required us to restate previous year's statements. However, this challenge has been met and we presented the attached draft of the Accounts to the Audit Commission on 5 June. Prior to that, the Audit Commission had already commenced their audit on the Chief Executive's Dept, Commercial Services, Environment and Regeneration and Communities directorate accounts. The audit of Kent Adult Social Services, Children Families and Education began week commencing 8 June. All the paperwork requested by the auditors has been available to them, and the professionalism of their audit approach has been exemplary. Inevitably, there will be a number of issues. These will be reflected in the auditors' Annual Governance Report, which may also include issues where there is a differing approach recommended by the Audit Commission compared to our own. 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 of the errors, the contents of the Annual Governance Report will be presented to the next meeting of this Committee for Members information and endorsement of our decision.

3. RECOMMENDATION

Members are asked to:

- 3.1 Consider and approve the Statement of Accounts for 2008-09 subject to the Chairman and Liberal Democrat Group Spokesperson being informed of any changes which may be made to the Accounts following completion of the external audit.
- 3.2 Note the recommendations made in the Annual Governance Report.

Cath Head
Chief Accountant
Ext: 1135

Lynda McMullan
Director of Finance
Ext: 4550

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2008-09 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 80 and 81.

The Accounts consist of:

- An Income & Expenditure account, page 17, which shows income and expenditure for all services.
- A Statement of the Movement on the General Fund Balance on page 18.
- A Statement of Total Recognised Gains and Losses, page 19.
- The Balance Sheet, pages 20 and 21, which sets out the financial position of Kent County Council as at 31 March 2009.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 22.
- Notes to support the above primary statements pages 23 to 65.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 66 to 79.

Revenue Budget and Outturn

In February 2008 the Council approved a net revenue budget for 2008-09 of £857.018m. In addition £7.889m of 2007-08 underspending was rolled forward and added to the budget and we have also received further allocations of Area Based Grant throughout 2008-09 amounting to £0.539m. 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 £000's	Outturn £000's	Variance £000's
Operations, Resources & Skills (CFE) - (Non Delegated)	-806,128	-803,847	2,281
Children, Families & Educational Achievement	129,339	126,680	-2,659
Kent Adult Social Services	324,800	324,128	-672
Environment, Highways & Waste	144,360	141,428	-2,932
Regeneration & Supporting Independence	9,647	8,620	-1,027
Communities	53,202	53,413	211
Public Health	949	824	-125
Corporate Support & External Affairs	32,375	31,600	-775
Policy & Performance	1,674	1,680	6
Finance	104,618	102,814	-1,804
	-5,164	-12,660	-7,496
Delegated Schools Budgets:			
Operations, Resources & Skills (CFE) - (Delegated Schools)	870,610	886,786	16,176
	865,446	874,126	8,680
FUNDED BY:-			
Reserves (rolling budget reserve)	7,889	7,889	0
Formula Grant	259,366	259,366	0
Council Tax	536,572	536,572	0
Area Based Grant	61,619	61,620	-1
Total Funding	865,446	865,447	-1
NET OUTTURN POSITION	0	8,679	8,679

The net underspending within the portfolios of £7.496m (excluding £16.176m delegated schools overspend) has been carried forward and will be added to the 2009-10 budget to support the re-scheduling of projects and to focus upon achieving the Council's key priorities and service improvements.

Schools

In total, schools overspent against their delegated budgets by £16.176m. This includes £15.663m of overspending of delegated schools budgets, and £0.513m of overspending on the unallocated schools budget, largely in respect of a £2m payment towards the costs of the Kent Public Services Network, which will deliver broadband connectivity to schools and a £1.5m clawback of schools reserves following the introduction of the balance control mechanism. This is being held in the unallocated schools budget awaiting Schools Forum agreement to how this will be utilised. The closure of schools during the year, with an overall net surplus balance, resulted in the transfer of £0.014m from the delegated schools revenue budget reserves to the unallocated schools budget. Schools now have some £51.950m of revenue reserves and there is £11.234m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2009 is £25.835m, which is unchanged from the position as at 31 March 2008.

Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority has £50.35m deposited across 3 of these institutions, £16m invested on behalf of the Pension Fund and £1.3m on behalf of the Kent and Medway Fire Authority. A detailed note on the impact of this event on the Accounts can be found on pages 63 to 65.

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 £309.4m. The expenditure analysed by portfolio was:-

PORTFOLIO	Budget £'000s	Outturn £'000s	Variance £'000s
Operations, Resources & Skills (CFE)	151,959	150,750	-1,209
Children, Families & Educational Achievement	2,040	1,609	-431
Adult Social Services	6,128	4,136	-1,992
Environment, Highways & Waste	73,131	69,939	-3,192
Regeneration & Supporting Independence Communities	12,154	10,516	-1,638
Corporate Support & External Affairs	11,791	7,694	-4,097
Policy & Performance	9,663	8,000	-1,663
Finance	512	427	-85
	4,668	4,044	-624
	<u>272,046</u>	<u>257,115</u>	<u>-14,931</u>
Devolved Capital to Schools	60,955	51,486	-9,469
	<u>333,001</u>	<u>308,601</u>	<u>-24,400</u>
Property Enterprise Fund 1		593	593
Property Enterprise Fund 2		174	174
		<u>767</u>	<u>767</u>
TOTAL	<u><u>333,001</u></u>	<u><u>309,368</u></u>	<u><u>-23,633</u></u>

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £14.931m 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 2009-10 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2008-09 was £51.486m and at 31 March 2009 schools have in hand some £9.469m of devolved capital funding, which will be carried forward to 2009-10 as part of the overall schools reserves position.

The original Property Enterprise Fund (PEF1) was established in 2006-07 with an approved maximum permitted deficit of £10m to be funded by temporary borrowing, but is expected to be self-funding over a period of 10 years. Non earmarked receipts are accounted for through this fund and the proceeds are used for the strategic acquisition of land and property to add value to the Council's portfolio, aid the achievement of economic and regeneration objectives and the generation of income.

In September 2008 the County Council agreed to a second Property Enterprise Fund (PEF2) with a maximum overdraft of £85m to be funded by prudential borrowing. This was required to support the capital programme where falling land and property values were impacting on our ability to raise the £180m of capital receipt funding assumed in the 2008-11 programme. This fund differs from PEF1 as only earmarked receipts are accounted for through PEF2 with the sole purpose of supporting the capital programme. Property Group negotiate a value for an earmarked property with the holding directorate and provide them with guaranteed funding from prudential borrowing to support their programme. The earmarked property is then held corporately until the time is right to realise the capital receipt. This enables the Authority to take a longer term view on getting the best value from our assets. The financial objective of PEF2 is to broadly break even over a rolling five-year cycle.

In 2008-09, £0.593m was spent through the original Property Enterprise Fund (PEF1). In addition, PEF1 was earmarked to fund £4.781m of capital spend in 2008-09 on the completion of a regeneration project in East Kent (Eurokent Access Road) due to be refunded by East Kent Opportunities LLP, (£4.194m, within Regeneration and Supporting Independence portfolio) and the Gateway programme (£0.587m, within Corporate Support & External Affairs portfolio), together with £0.7m of budgeted funding support to the Medium Term Plan. Therefore, total costs to be met from PEF1 were £6.074m. Due to the slowdown in the property market, capital receipts generated through PEF1 from the disposal of non-operational property were only £1.668m, therefore £4.406m required funding from the approved £10m temporary borrowing facility. When this is added to the £0.828m deficit brought forward from 2007-08, the deficit on PEF1 at the end of 2008-09 was £5.234m.

Details of the main items of capital expenditure are shown on page 38, and details of the financing of capital expenditure are on page 37.

Capital Reserves

At 31 March 2009 the Council has earmarked and other capital reserves of £84.5m as shown on page 21.

Insurance Fund

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

Based on current estimates of the amount and timing of fund liabilities the insurance provision at 31 March 2009 is established at a level sufficient to meet all known insurance claims where the likely cost can be estimated and there is reasonable certainty of payment. It is therefore in accordance with the requirements of FRS 12. Details can be found on page 42.

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 Income and Expenditure 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 2008-09, earlier years and for future years. The balance currently stands at £998.4m as shown on the balance sheet on page 20.

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 Cath Head, Chief Accountant.

Telephone Maidstone (01622) 221135 or e-mail cath.head@kent.gov.uk.

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 2009 on behalf of Kent County Council.

Councillor Chairman of the Governance and 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 2009.

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

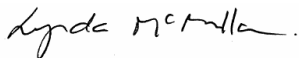
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

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 17 to 79 present fairly the financial position of Kent County Council at 31st March 2009 and its income and expenditure for that year.



Director of Finance

Scope of responsibility

Kent County Council (“KCC” or “the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, KCC is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions which includes arrangements for the management of risk.

In 2004 KCC approved and adopted a code of corporate governance, which is consistent with the principles of governance set out in the CIPFA *Good Governance Standard* (2004). This is included in the Constitution and is available on our website. KCC is in the process of updating the code of governance so that it explains how KCC has complied with CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

This statement explains how KCC has complied with the CIPFA SOLACE Framework, identifying areas in which our governance arrangements can be strengthened. This statement also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The governance framework has been in place at the Council for the year ended 31 March 2009 and up to the date of approval of the annual report and statement of accounts. The governance framework is aligned with the principles of good governance set out in CIPFA SOLACE Governance Framework (*Delivering Good Governance in Local Government*, 2007). The Council is committed to fulfilling its responsibilities in accordance with the highest standards of good governance, underpinned by the ethical behaviour of officers and members.

The Governance Framework

Fundamental to the success of the Council is engagement with citizens and service users in the development of the Council’s vision, priorities and intended outcomes. The Council’s vision was developed in consultation with over 40 partners, including district councils and local businesses. It is comprised of nine themes, each with its own vision and monitored through a number of targets which links the vision to corporate and directorate plans and strategies, including Kent Agreement (the Public Service Agreement) and its 12 ‘stretching targets’. The Council will report on progress towards the vision annually and during this process will take the opportunity to consider whether the vision needs to be refreshed. It is agreed that the vision is likely to be refreshed on a five year cycle.

The Council has a Residents Panel, runs campaigns on local issues and regularly consults with its service users and stakeholders. Consultation takes place at many levels including corporate consultation, directorate and service specific consultation and consultation with partners. Also, the Council has a Customer Care charter which is in the process of being reviewed, following feedback from customers.

The Council and the Leader are responsible for ensuring Best Value throughout the Council. The objectives and targets through which this will be achieved have been set out each year in the ‘Annual Plan’. Council-wide and directorate specific processes are in place to monitor progress against the objectives and targets on a regular basis.

The Comprehensive Performance Assessment (CPA) process brings together a range of performance management information to provide a corporate assessment of the Council’s performance. The Council is rated 4 Star by the Audit Commission and assessed as ‘improving strongly’. The Council’s management team is working towards achieving the best possible assessment score under the new Comprehensive Area Assessment (CAA) in 2009.

Annual Governance Statement

As part of their use of resources assessments, the external auditors will consider the arrangements in place to enable the preparation of the annual governance statement, including the degree to which the Council recognises the corporate ownership of its governance arrangements

The Constitution of Kent County Council sets out the roles and responsibilities of: the Overview and Scrutiny Committees; the Standards Committee; the Executive and the Council. It also sets out functions delegated by the Council to Committees and Officers and includes the Member and Officers Code of Conduct.

The Members Code of Conduct sets out the obligations of Members, how personal and prejudicial interests should be managed and 10 general principles governing Members' conduct. On election (mostly in 2005) Members were made aware of the Code of Conduct during their induction process. It has since been revised and was communicated to Members.

The Code of Conduct for Employees is available on the Council's intranet site and is included in the Constitution. It explains that citizens and service users expect high standards of conduct of all Council employees and provides guidance on how to achieve this. Employees are made aware of this Code of Conduct through the corporate induction process.

The Standards Committee is responsible for ensuring that decisions are made with consideration of appropriate ethical standards.

The Constitution contains a statement on Resource Management Responsibilities which includes the Council's Financial Regulations such as its Standing Orders and the Scheme of Financial Delegation. These are prepared and maintained by the Director of Finance and Chief Executive and endorsed by the Leader and the Governance and Audit Committee.

The Governance and Audit Committee is comprised of 13 Members representing the 3 main political parties. Its' responsibilities are set out in the Constitution and include:

- Monitoring the Council's compliance with key controls and relevant standards
- Ensuring all Best Value processes comply with legal and audit requirements
- Discussing the basis of the annual audit with the external auditors and Cabinet
- Receiving reports from the external auditor on their work
- Overseeing the work of Internal Audit
- Overseeing the Council's complaints procedure and receiving reports from the Complaints Ombudsman
- Agreeing the risk management policy and monitoring the effectiveness of risk management.

The Governance and Audit Committee meets four times annually to discharge its responsibilities.

2008 saw the launch of the 'Strategy for Staff' which was developed with the objective of enabling staff to feel pride in themselves and the work they do at the Council, thus achieving their full potential and providing excellent customer service. Progress has been made in this respect in 2008-09 in the development of an excellent workforce; continuous improvement; providing excellent management and inspirational leadership; facilitating open communication and engagement with staff and provision of a rewarding career structure and remuneration package. The Council is committed to providing a healthy, lively and vibrant work environment where staff feel supported and enabled to work effectively, safely and with fun.

The Council's Whistleblowing Policy was launched by Personnel and Development in April 2006 and is available on the Council's intranet site. It encourages members of staff to raise concerns if they become aware of behaviour which is likely to breach legislation, including health and safety legislation. The policy explains how members of staff can raise concerns internally and externally and steps that will be taken by the Council after an individual has 'blown the whistle'. It has been reviewed by the Governance and Audit Committee during 2008-09 and updated.

Annual Governance Statement

The Council has dedicated considerable resources to implementing a robust structure of partnership governance. In April 2007 partnership guidance was approved, providing definitions and classifications of key partnerships and setting out the fundamental considerations when establishing and managing a partnership. Measures introduced included partnership risk management, as well as the establishment of partnership registers at directorate level. Following its inaugural work on partnership governance in 2007-08, Internal audit undertook further work in 2008-09 providing assurance on the governance arrangements of ten significant partnerships across the Council.

The report concluded that there was there was substantial assurance that risks that could prevent achievement of business objectives pertaining to the audited system were managed effectively. The following four recommendations were made:

- Directorates were encouraged only to list their significant partnerships on the register, so as not to impair its overall effectiveness
- Some aspects of the risk management process at partnership level were not wholly embedded. For example, in three of the ten partnerships reviewed, the extent of structured and regular financial monitoring was judged to be inadequate. One of these partnerships and two others did not yet have partnership risk registers in place
- It is best practice for the partnership agreement to include a clause providing the Council with access to the partnership's records. However in four of the partnerships reviewed, there was insufficient provision to facilitate such access
- Financial reporting to the governing boards and committees was neither structured nor regular in four of the partnerships reviewed.

Whilst overall partnership governance arrangements were found to be largely appropriate, there are clearly issues still to be addressed and the Council remains committed to developing further its partnership risk assessment procedures.

Internal control environment

The internal control environment is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Council has demonstrated its commitment to improving system and processing controls as well as general risk management awareness and effective governance arrangements. Management has accepted and implemented a number of key Internal Audit recommendations and engaged in open and challenging discussions about points raised in Internal Audit reports and other assurance reports. All these points are indicative of an improving internal control environment.

Overall, there are no significant weaknesses in the overall system of internal control and controls are generally in place and operating effectively, however there are some areas where improvements are required and the Council is committed to delivering these improvements over the next year. The areas include:

- The process around recruitment and CRB checks. Audits were undertaken in the previous year in Chief Executive's Department, Kent Adult Social Services, Communities and Children Families & Education on recruitment and CRB checks. Although some areas had good controls in place, there were other areas where the relevant checks were not being carried out, in particular on volunteers. In addition, processes were not always in place to follow up staff where CRB checks were required. Senior management, including the Chief Executive and Director of Personnel and Development have personally overseen the implementation of recommendations. Measures have been put in place within the Communities Directorate to rectify weaknesses and these have led to an assessment of substantial assurance at the follow-up audit.

Annual Governance Statement

- Business Continuity Planning and Disaster Recovery was raised in the 2007-08 Annual Governance Statement. Although individual Business Continuity Plans were being completed and tested, there was still further work required to embed the principles fully across the Council. In 2008-09, the Emergency Planning Team was assigned responsibility for providing guidance on the Business Continuity Planning strategy. Although some progress has been made, there is still a need to create plans to ensure the continuation and restoration of the key business processes within the timescales required following an operational failure or major disaster. In 2008-09 the corporate focus of attention moved away from separate Business Continuity planning for individual services towards developing a 0-7 day Business Impact Analysis Statement for the whole Council. Officers drew on lessons learnt during preparation for a possible fuel delivery strike during the summer of 2008 and work needs to be undertaken in 2009-10 to embed these principles.
- Kent Adult Social Services (KASS) has been working to overcome a number of operational challenges with regard to the SWIFT system. These included inherent weak security (password) controls within the system and limited audit trails being available to monitor user activity. The Directorate's Strategic Management Team will continue to play a major role in closely overseeing the development now that SWIFT is bedding down and the Corporate Board is to monitor regularly. There is a robust risk plan within the project, which is reviewed and updated regularly and shared with the Strategic Management Team
- The KASS 'Client Billing' project implemented in November 2008 has seen the calculation of service users' charges transfer from the current COLLECT system, to SWIFT. This has resulted in the charges being automatically generated based upon the service/provision data held within SWIFT. A formal post implementation review has been commissioned to help the Directorate learn any lessons from the implementation and also to identify any areas where processes could be improved. The accuracy of SWIFT data has therefore become even more important, as both payments to domiciliary providers (TDM) and the charges to service users are being created using the same base information
- Environmental Highways and Waste (EHW) have to replace the operational finance system MIDAS, which is a major task. Risk management will be an integral part of the delivery programme. In addition, implementation of an improved highway asset management policy and strategy is also required.
- To strengthen children's trust arrangements at the local level, the Council introduced 23 Local Children's Services Partnerships ("LCSPs") from September 2008. The objectives of these local partnerships is to focus on improving outcomes for local children and young people within the framework of the Kent Children and Young People's Partnership. The local partnerships will promote integrated working and processes and bring together professionals from across children's services. They will also have a key role to ensure active participation of children, young people and families in identifying needs, developing and evaluating services. LCSPs have built on the previous school clusters theme and continue to provide a full range of Council services on a locality basis. An external inspection undertaken by Ofsted, published in December 2008, scored the Council as a Grade 3 with overall effectiveness of Children's services judged as Good. An overarching commissioning framework has been developed to enable integrated planning, delivery and evaluation of services for children's young people and families.

The framework sets out principles, definitions and values to underpin all integrated commissioning activity. Arrangements that are in place to develop commissioning models and guidance will be carefully managed to ensure that we continue to deliver effective and efficient services, and improve outcomes for Children and young people and their families.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of Committees and management with responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by work undertaken by the external auditors and other review agencies and inspectorates.

In recent years Internal Audit has reviewed Council-wide governance arrangements or specific elements of the Council's governance arrangements. In 2008-09 Internal Audit reviewed the Council's governance arrangements against the requirements of the CIPFA SOLACE Governance Framework. It found that overall governance arrangements are appropriate and made a number of minor recommendations for improvement.

Annual Governance Statement

The Governance and Audit Committee has an ongoing role in the review of the effectiveness of the Council's governance framework. Throughout the year it has received and considered reports regarding the work of Internal Audit and External Audit and on Risk Management, Complaints, Treasury Management and Value for Money. In September, the committee self-assessed its effectiveness using an Audit Committee effectiveness questionnaire provided by the Head of Audit and Risk. The results of this exercise were reported to the Governance and Audit Committee in December. Strengths included the frank open working relationship with Directors, independence and clarity in its terms of reference. Development areas included measures to be taken to ensure ongoing personal development of committee Members and enhancing their understanding of key financial issues and how assurance is gained.

From 2008-09 onwards, the Governance and Audit Committee has maintained a specific focus on key risks. Briefings now take place at each meeting on mitigating controls and on management actions being taken to strengthen these controls and to provide assurance that they are operating effectively.

The Standards Committee is responsible for promoting and maintaining high standards of conduct by Members of the Council. It endeavours to address any concerns regarding Members conduct and will deal with any reports from the Standards Board of England. During 2007-08 the Standards Committee considered the appointment of independent members from other Standards Committees to deal with specific allegations or complaints, considered the findings of the Internal Audit on Ethical Standards and resolved that the proposed new Code of Conduct for Members be recommended to the Council for adoption.

The Cabinet Scrutiny Committee meets monthly to scrutinise the decisions taken by Cabinet or individual Cabinet Members. The Committee Chair and Spokesmen decide which decisions require scrutiny and decisions that are not in accordance with the approved policy or budget are automatically referred for scrutiny.

Committee Members scrutinise decisions by questioning the relevant Cabinet Member and Managing Director. Local taxpayers and stakeholders can participate in this process by: attending meetings as they are held in public; suggesting decisions for scrutiny and submitting written comments on decisions already called in for scrutiny.

Significant governance issues

There are no significant governance issues. However, the review of our governance arrangements has enabled us to identify elements of the governance framework which we are committed to strengthen further, such as:

- Further embedding of and engagement with the Council's risk management framework
- Management of risk with partners
- Training and development opportunities for Members, particularly those Members who are new to the Council, following election in June 2009
- Continued improvement to the internal control environment, with specific focus on the areas detailed above

Additionally, we recognise that we need to complete the revision of the Code on Governance and publish it as soon as is possible.

We propose over the coming year to take steps to address the above matters to enhance further our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Leading Member (or equivalent) & Chief Executive (or equivalent) on behalf of [the Council]

**Darren Wells
District Auditor
Audit Commission
16 South Park
Sevenoaks
Kent TN13 1AN**

General

The Accounts of Kent County Council have been compiled in accordance with the 2008 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 legal or constructive 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 42 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 Income and Expenditure Account, expenditure met from reserves is included in the cost of services. Transfers to and from reserves are shown in the Statement of Movement on the General Fund balance. Details of the Authority's reserves are shown in the notes to the Accounts on pages 43-47.

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 has not been completed by the end of the year is carried forward as "assets under construction". 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 Assets

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 will also be revalued following significant works occurring on that asset or some event that may impact on the value of that asset, such as a significant downturn in economic conditions. Properties held for disposal will also be revalued on an annual basis to reflect changes in market conditions. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written to the Income and Expenditure Account as impairment where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Statement of Movement on the General Fund Balance so that there is no impact on council tax. Impairment caused by a clear consumption of economic benefits e.g. physical damage, is recognised in the service revenue account, so is charged against net cost of services. It is then removed through the Statement of Movement on the General Fund Balance so that it does not have an impact on council tax.

Accounting Policies

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 historical cost until it is revalued. It is then valued at the lower of net current replacement cost or net realisable value in existing use.
- Vehicles, plant and equipment are valued at the lower of net current replacement cost or net realisable value in existing use.
- Infrastructure, community assets and work in progress are valued at depreciated historical cost.

Gains and Losses on Disposal of Fixed Assets

These amounts comprise the difference between the capital receipt from the sale of a fixed asset and the carrying amount of the asset on the asset register after identified costs have been removed. Items that are not held on the balance sheet e.g. strips of land, will be recognised as a gain, and assets that are removed from the asset register for nil consideration e.g. transferred assets or assets that are demolished will be shown as a loss in the income and expenditure account. Gains and losses on the sale of vehicles, plant and equipment will be recognised in the income and expenditure account.

Depreciation

Depreciation is calculated on a straight-line basis over each asset's useful economic life and is charged to the relevant service revenue account in the year following completion of the asset.

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 property	- nil

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation and the depreciation that would have been chargeable based on their historical cost .

Capital receipts

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

Accounting for financial assets and liabilities

FRS 25, 26 and 29 require Authorities to recognise and de-recognise their financial assets and liabilities. Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Accounting Policies

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

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 accordance 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.

Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute represents expenditure which may be properly capitalised, but does not result in the creation of tangible assets. The expenditure incurred during the year has been written off as expenditure to the relevant service revenue account. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Statement of Movement on the General Fund Balance to mitigate any impact on council tax.

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 if appropriate. Capital grants not put to the government grants deferred account are added to the individual service lines that they relate to on the income and expenditure account and are then removed through the Statement of Movement on the General Fund Balance to negate the effect on council tax. 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.

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. However, if it is available for use on other services and not time limited, it is treated as an underspend.

Leasing

Finance and operating lease rentals paid during the year and the undischarged operating lease obligations are shown in Note 9 to the Income and Expenditure Account and within Note 17 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

The Authority contributes to the Teachers' Pension Scheme at rates set by the scheme actuary and advised by the Scheme Administrator. The scheme pays benefits on the basis of pre-retirement salaries of teaching staff. While the scheme is of the Defined Benefit type, it is accounted for as a Defined Contribution Scheme under the requirements and exemptions of Financial Reporting Standard 17, 'Retirement Benefits' (FRS 17).

- Other employees

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

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.

Statutory provisions limit the Council to raising council tax to cover the cash payable to the pension fund in the year. Therefore, an appropriation is made in the Statement of Movement on the General Fund Balance to/from the Pensions Reserve to remove the notional debits and credits for retirement benefits.

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 67.

PFI Accounting Policy

The County Council has several long term PFI contracts including Westview and Westbrook which are two recuperative care facilities, Swan Valley Community School, a contract for the refurbishment and redevelopment of six schools and a contract to provide a form of social housing. It is our policy to write out the proportion of the assets that have been transferred and create a prepayment to recognise this transfer of our assets. This is then written down over the life of the contract. We also create a long term debtor to recognise the residual value of the asset returning to us at the end of the contract, which is built up over the life of the contract. Where buildings transferred are demolished, these are written out as a disposal and the loss charged to the Income and Expenditure Account.

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)'.

Income and Expenditure Account

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes transactions measuring the value of fixed assets consumed i.e. depreciation and the real projected value of retirement benefits earned by employees in the year.

	Notes	Year ended 31 March 2009			2007-2008
		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Net Expenditure £'000
Service					
Regulatory Services and Emergency Planning		10,286	3,255	7,031	6,554
Court Services		3,089	386	2,703	2,869
Arts & Libraries		32,916	2,956	29,960	26,692
Waste Management		62,725	5,002	57,723	55,328
Environmental, Planning and Other Services		55,100	27,686	27,414	42,830
Children's and Education Services		1,487,280	1,300,132	187,148	119,935
Highways, Roads and Transport Services		113,816	8,475	105,341	92,441
Adult Social Care		471,859	140,949	330,910	286,535
Corporate and Democratic Core		26,149	15,335	10,814	12,675
Non Distributed Costs		32,040		32,040	17,283
Net Cost of Services	1	2,295,260	1,504,176	791,084	663,142
Gain on the disposal of fixed assets				-6,091	65,165
Precepts and Levies	2			591	570
Net Surplus on trading accounts	3			-6,454	-4,617
Interest payable and similar charges				56,316	55,591
Contribution by Medway to Loan Debt-Principal & Interest				-5,008	-5,337
Interest and Investment Income				-14,799	-16,352
Impairment on Icelandic Investments	34			10,646	
Interest Receivable on Icelandic Investments	34			-2,565	
Pensions interest cost and expected return on pensions assets	4			36,900	15,000
Net Operating Expenditure				860,620	773,162
This was financed by:					
General Government Grants				-268,424	-228,685
Area Based Grant				-61,619	
Non-Domestic Rates Redistribution				0	0
Demand on Collection Fund				-536,572	-513,044
Net General Fund Surplus(-)/ Deficit				-5,995	31,433

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.
- Loss/gain on disposal of fixed assets.

The General Fund Balance compares the council's spending against the council tax it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure account and the General Fund Balance.

Notes	At 31 March 2009 £'000	At 31 March 2008 £'000
(Surplus)/deficit on the Income & Expenditure Account	-5,995	31,433
Amount required by statute to be debited/(credited) to General Fund	5,995	-31,433
Increase in General Fund balance for the year	0	0
General Fund balance brought forward	-25,835	-25,835
General Fund balance carried forward	-25,835	-25,835

Reconciling Items for the Statement of Movement on the General Fund

Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year

Amortisation of intangible assets		-1,360	-1,441
Depreciation and impairment of fixed assets		-138,450	-112,002
Government Grants deferred		18,659	16,857
Government Grants and Contributions received		142,863	96,432
Write down of revenue expenditure funded from capital under statute		-58,964	-34,836
Net gain on sale of fixed assets		6,091	-65,165
Differences relating to changes in Financial Instruments (impairment and interest)		-117	48
Changes in Financial Instruments re: Icelandic Investments		-8,081	0
PFI adjustments re transfer of assets		3,581	3,134
Net charges made in accordance with FRS17	4	-102,400	-80,100
		-138,178	-177,073

Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year

Provision for the payment of external loans		42,032	40,051
Direct revenue financing		16,266	13,396
Contributions to/(from) the Pension Reserve	4	86,300	82,500
		6,420	-41,126

Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year

Net transfer to/(from) earmarked reserves		-425	9,693
Net additional amount required to be debited/(credited) to General Fund Balance		5,995	-31,433

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

	At 31 March	At 31 March
	2009	2008
	£'000	£'000
(Surplus)/deficit for the year on the Income and Expenditure Account	-5,995	31,433
(Surplus)/deficit arising on revaluation of fixed assets	-62,505	-87,117
Actuarial (gains)/losses on pension fund assets and liabilities	154,252	-71,040
(Surplus)/deficit arising on revaluation of loans and receivables	-1,286	811
Movement of deferred premiums in line with regulations.		20,040
Total recognised (gains)/loss for the year	84,466	-105,873

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 2009		31 March 2008	
		£'000	£'000	£'000	£'000
Fixed assets					
Intangible fixed assets	18		3,551		3,629
Tangible fixed assets					
Operational assets					
Land and buildings		1,470,089		1,443,378	
Vehicles, plant and equipment		28,811		21,576	
Roads and other highways infrastructure		606,431		568,640	
Community assets		8,505		8,047	
Non-operational assets					
Investment property		6,624		6,588	
Assets under construction		327,734		256,871	
Surplus and non-operational property		99,869		81,737	
Total tangible assets	17		2,548,063		2,386,837
Total fixed assets			2,551,614		2,390,466
Long-term investments			96,267		134,547
Long-term debtors	19		54,712		56,533
PFI debtor	19		8,167		3,933
Total long-term assets			2,710,760		2,585,479
Current assets					
Stocks and work in progress		5,937		5,390	
Debtors	19	205,106		177,518	
Investments		262,949		264,121	
Total current assets			473,992		447,029
Current liabilities					
Temporary borrowing		-60,641		-35	
Creditors	20	-298,747		-266,688	
Cash balances overdrawn		-103,339		-108,383	
			-462,727		-375,106
Total assets less current liabilities (Net assets employed)	21		2,722,025		2,657,402
Long-term liabilities					
Long-term borrowing		-998,427		-1,017,200	
Deferred liabilities		-255		-535	
Deferred credit - Medway Council		-51,249		-53,385	
Provisions	22	-14,489		-14,636	
Government grant deferred account		-196,454		-196,381	
Liability related to defined benefit pensions schemes - KCC	24	-739,900		-569,300	
- DSO	24	-2,199		-2,447	
			-2,002,973		-1,853,884
Total assets less liabilities			719,052		803,518

Balance Sheet

Revaluation reserve	23	-131,912	-72,530
Capital adjustment account	23	-1,081,188	-1,071,609
Financial instruments adjustment account	23	27,715	20,803
Earmarked capital reserve	23	-70,144	-52,436
Usable capital receipt reserve	23	-14,379	-7,825
Pensions reserve			
- KCC	24	739,900	569,300
- DSO	24	2,199	2,447
Earmarked reserves	23	-102,002	-86,015
General fund balance	23	-25,835	-25,835
Schools reserves	23	-63,183	-79,360
Surplus on trading accounts	25	-223	-458
Total net worth		<u>-719,052</u>	<u>-803,518</u>

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	2008-2009		2007-2008
		£'000	£'000	£'000
Revenue Activities				
Cash outflows				
Employee costs		1,135,940		1,102,988
Other operating costs		1,013,762		955,129
Precepts and levies paid		591		570
			2,150,293	
Cash inflows				
Dedicated Schools Grant		-773,916		-751,846
Precepts on Collection funds		-536,572		-513,044
Area based grant		-61,619		
Revenue support grant and PRG		-268,424		-228,685
Other government grants	29	-430,678		-419,827
Cash received for goods and services		-164,117		-255,478
Other operating cash receipts		-8,977		-10,413
Net cash inflow revenue activities	30		-94,010	-120,606
Returns on Investments and Servicing of Finance				
Cash outflows				
Interest paid		57,883		54,191
Interest element of finance lease rental		25		30
Cash inflows				
Interest received		-18,615		-10,969
			39,293	43,252
			-54,717	-77,354
Capital Activities				
Cash outflows				
Purchase of fixed assets		263,187		215,253
Expenditure on deferred charges		39,381		28,560
Purchase of long-term investments		60,000		58,000
Cash inflows				
Sale of fixed assets		-24,735		-28,749
Capital grants received	29	-147,760		-109,499
Other capital cash receipts		-16,645		-18,390
			173,428	145,175
Net cash outflow before financing			118,711	67,821
Management of Liquid Resources				
Net increase/decrease(-) in short term investments			-87,554	58,487
Financing				
Cash outflows				
Repayments of amounts borrowed		205,703		184,872
Capital element of finance lease rentals		145		202
Repayment of credit liability		7,445		4,144
Cash inflows				
New loans raised		-245,470		-235,100
Discounts Received		-4,024		
			-36,201	-45,882
Net decrease/increase(-) in cash	31		-5,044	80,426

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:

	2008-09	2007-08
	£000's	£000's
Environment Agency	331	325
Kent and Essex Sea Fisheries Committee	232	217
Sussex Sea Fisheries Committee	28	28
	<hr/>	<hr/>
	591	570

3. Trading Operations

The results of the various trading operations for 2008-09 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover	Expenditure	Surplus/ Deficit(-) 2008-09	Surplus/ Deficit(-) 2007-08
	£'000	£'000	£'000	£'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	37,701	36,161	1,540	1,121
Facilities & Technical Services Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT	5,236	4,823	413	-14
Brokerage Services Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for CFE, E&R & KASS	250,768	248,880	1,888	966
County Print Graphic design and general printing	2,583	2,575	8	45
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	20,744	18,767	1,977	1,921
Landscape Services Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment	8,181	7,531	650	567
Oakwood House Conference centre	2,058	2,080	-22	11
Total surplus	327,271	320,817	6,454	4,617

4. 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 Reconciling Items for the Statement of Movement on the General Fund.

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	
	2008-09	2007-08 As restated
	£000's	£000's
Net Cost of Services:		
• Current service cost	-47,700	-62,800
• Past service costs and curtailments	-17,800	-2,300
Net Operating Expenditure:		
• Interest cost	-119,200	-96,600
• Expected return on assets in the scheme	82,300	81,600
Net charge to the Income and Expenditure Account	-102,400	-80,100
Statement of Movement on the General Fund Balance:		
• Reversal of net charges made for retirements benefits in accordance with FRS17	102,400	80,100
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-86,300	-82,500

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £154,252k were included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses recognised in the Statement of Total Gains and Losses is £205,590k which includes an element of the DSO fund.

Teachers

In 2008-09 Kent County Council paid £58.7m (£57.2m in 2007-08), to the Teachers Pension Agency in respect of teachers' pension costs, which represented 14.1% 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 2008-09 these amounted to £4.3m (£4.4m in 2007-08), representing 1.0% (1.1% in 2007-08) 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 2008-09 Kent County Council paid an employer's contribution of £86.3m (£82.5m in 2007-08) into the Pension Fund, representing 24% (24.2% in 2007-08) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2008-09 was based on the review carried out as at 31 March 2007. 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 2008-09 is £70k (£654k in 2007-08). The capital value of payments agreed in earlier years is £117m (£126m in 2007-08).

An actuarial valuation was carried out on the fund as at 31 March 2007. The actuary has estimated that based on current contribution rates the deficiency on the Pension Fund at 31 March 2004 would be recovered over a period of 20 years.

Other Notes to the Income and Expenditure Account

5. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Children, Schools and Families, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2008-09 are as follows

		Central Expenditure £'000	Individual Schools Budget £'000	Total £'000
A	Final DSG for 2008-09			773,916
B	Brought forward from 2007-08			10,466 *
C	Carry Forward to 2009-10 agreed in advance			<u>0</u>
D	Agreed budgeted distribution in 2008-09	116,654	667,728	784,382
E	Actual central expenditure	-91,159		-91,159
F	Actual ISB deployed to schools		-678,388	-678,388
G	Local Authority contribution for 2008-09			<u> </u>
H	Carry Forward to 2009-10	25,495	-10,660	14,835 **

Notes

*

The 2007-08 Statement of Accounts shows this figure as £8.412m. This is made up of a central expenditure carry forward of £3.428m and an Individual Schools Budget (ISB) carry forward of £4.984m. The ISB carry forward figure included the net movement in schools' revenue reserves. The recent publication of the CIPFA statement of recommended practice has clarified how this note should be completed by confirming that the movement in schools reserves should be excluded. Therefore the total DSG carry forward amount from 2007-08 has been recalculated as £10.466 which represents a carry forward of £3.428m on the central expenditure and £7.037m on the schools' unallocated budget.

**

The total carry forward to 2009-10 of £14.835m represents a carry forward of £5.835m on the centrally retained DSG budget and £9.000m on the schools' unallocated budget.

6. 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:

	2008-09	2007-08
	£'000	£'000
<u>Kent County Council - non schools</u>		
Recruitment advertising	748	768
Other Advertising		
- Campaign to reduce levels of waste	624	596
- Campaign to increase take-up of funded places for 3 and 4 year olds	243	222
- Promoting the Library and Archive service	35	31
- Promote Tour de France in Kent	0	27
- Promoting greater participation in sport	48	26
- Promoting public health	66	0
- Other advertising	316	280
Total of other advertising	1,332	1,182
Other Publicity		
- Corporate communications team and activity	807	863
- Promoting tourism	462	479
- Supporting Produced in Kent	150	158
- Publicity for European regional development fund projects	0	84
- Other publicity	225	254
Total of other publicity	1,644	1,838
Total KCC spend - non schools	3,724	3,788
<u>Schools</u>		
Schools recruitment advertising (see note 1)	2,261	1,895
Total KCC including schools	5,985	5,683

Notes:

1) Recruitment costs in schools has increased as a direct result of schools increasing spend on teachers and support staff, where costs have increased by 6% from 2007-08 (£41m in cash)

7. Members Allowances

Members allowances paid in 2008-09 totalled £1,757,065 (£1,770,436 in 2007-08).

8. 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 £32.0m (£ 31.0m in 2007-08). Supplies of goods and services totalled £24.7m (£24.6m in 2007-08). External business represented 43.1% (46.4% 2007-08) of the turnover of Commercial Services department.

9. 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 £6.13m and in respect of land and buildings amounted to £5.611m. A further £0.303m was paid in respect of finance leases.

The Council was committed at 31 March 2009 to making payments of £11.186m under operating leases, comprising the following elements:

	Land and Buildings	Vehicle Plant and Equipment
	£000's	£000's
Leases expiring in 2009/10	427	625
Leases expiring between 2010/11 and 2013/2014	3,828	5,004
Leases expiring after 2014/2015	1,271	31
	<u>5,526</u>	<u>5,660</u>

The Authority as Lessor - the Authority receives an amount of approximately £684k in rental income in relation to a number of properties.

10. Related Party Transactions

During the financial year 2008-09 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 £530.6m.
- Kent County Council received Dedicated Schools Grant of £773.9m.
- Precepts amounting to £0.6m were paid to the Environment Agency, Kent and Essex Sea Fisheries Committee and Sussex Sea Fisheries Committee.
- Payments to other local authorities and health bodies, excluding precepts, totalled £15.8m.
- Receipts from other local authorities and health bodies totalled £62.5m.
- In addition, payments of Employers' Pension Contributions were made to the Pension Fund in respect of members of the Local Government Pension Scheme and to the Teachers Pension Agency in respect of teachers. The amounts of these payments are detailed in notes to the Income and Expenditure Account, note 4 on pages 25 and 26 of these Accounts.
- Payments made to Kent Top Temps Ltd amounted to £10.7m.

11. Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2008 to 31 March 2009

This note shows the number of employees whose total remuneration in the financial year 2008-09, 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; and

c) the money value of benefits such as leased cars and health insurance.

Remuneration (£)	Total number of employees			
	Non-Schools 31 March 2009	Schools 31 March 2009	Non-Schools 31 March 2008	Schools 31 March 2008
50,000 - 59,999	290	535	261	458
60,000 - 69,999	110	149	78	127
70,000 - 79,999	27	52	17	54
80,000 - 89,999	13	42	12	28
90,000 - 99,999	13	16	11	16
100,000 - 109,999	9	8	17	5
110,000 - 119,999	6	2	2	2
120,000 - 129,999	1	2	2	1
130,000 - 139,999	2	0	2	0
140,000 - 149,999	3	0	1	0
150,000 - 159,999	1	0	1	0
160,000 - 169,999	1	0	0	0
170,000 - 179,999	2	0	1	0
180,000 - 189,999	0	0	0	0
190,000 - 199,999	1	0	0	0
200,000 - 209,999	0	0	0	0
210,000 - 219,999	0	0	1	0
220,000 - 229,999	0	0	0	0
230,000 - 239,999	0	0	0	0
240,000 - 249,999	1	0	1	0
300,000 - 309,999	1	0	0	0
370,000 - 379,999	1	0	0	0
Total	482	806	407	691

The two employees who received over £300k (as shown in the above table) both left the Authority during 2008-09. The amount paid to those two staff includes salary during their employment and their termination payment. The Chief Executive's remuneration is in the band £240,000 - £249,999, the same as in 2007-08.

12. Audit Costs

In 2008-09 the following fees were paid relating to external audit and inspection :

	2008-09	2007-08
	£'000	Restated £'000
Fees payable for external audit services carried out by the appointed auditor	367	428
Fees payable to the Audit Commission in respect of statutory inspection	4	5
Fees payable to the appointed auditor for the certification of grant claims and returns	27	62
Fees payable in respect of other services provided by the appointed auditor	6	32
	404	527

13. Subsidiary Undertakings

Kent Top Temps LTD (KTT) is a wholly owned subsidiary of Kent County Council. Kent County Council holds the only share. It commenced trading on the 4th April 2005. KTT is a recruitment business that focuses on the supply of both temporary and permanent placements to KCC, other public sector bodies and the private sector. KTT has specialist desks for the supply of temporary labour to the following sectors; administration, care, supply teachers, drivers and industrial, catering, interpreters and translation and professionals. The permanent appointment desk operates via the name of KTT Appointments. It also operates buses for contract and private hire trading as Kent Top Travel. KTT had a turnover in 2008-09 of £14.4m with a net profit of £0.34m before tax, £0.25m after tax (estimated). In 2007-08 its net assets were £0.47m and in 2008-09 they are £0.62m. The indebtedness between the authority and KTT is £0.74m.

Kent County Facilities Limited was trading as InsideOut (from September 2007) but is now trading as Facilities Management (from January 2009). Kent County Council holds the only share. It undertakes building repair and maintenance contracts to the public and private sector. Facilities Management had a turnover of £0.82m and a net profit of £0.04m. In 2008-09 its net assets were £0.004m. The indebtedness between the authority and InsideOut is £0.21m.

Kent County Council (KCC) and Thanet District Council (TDC) wished to bring forward the economic development and regeneration of the sites known as Eurokent and Manston Park. A Member Agreement was signed on the 22 August 2008 and a joint venture vehicle was set up, the East Kent Opportunities LLP (EKOLLP), which was incorporated on the 4 March 2008. KCC and TDC have 50:50 ownership, control and economic participation in the joint venture. KCC and TDC contributed 38 acres of land each to EKOLLP. The land was valued for stamp duty land tax (SDLT) at £5.5m (KCC contribution) and £4.5m (TDC contribution). The powers used are the 'well-being powers' provided to local authorities in Part I of the Local Government Act 2000. In 2008-09, the net assets of the joint venture are £3.9m and the funds carried forward are £139.8k.

Collectively these subsidiaries do not have a material impact on Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2008-09. This situation is reviewed on an annual basis.

Copies of these accounts can be acquired through Companies House with none being qualified.

Notes to the Core Financial Statements

14. NHS Act 2006 - Section 75

Under Section 75 of the above Act, the Authority has entered into a number of agreements with Primary Care Trusts (PCT) and a Social Care Partnership Trust. These comprise the Kent Drug and Alcohol Action Team (KDAAT), which is responsible for the effective management and commissioning of drug and alcohol related services throughout Kent. It's objectives are to help young people resist drug misuse, protect our communities from drug related anti-social behaviour, provide treatment services to both adults and young people and to stifle the availability of illegal drugs on our streets. Registered Nursing Care Contribution (RNCC) in Care Homes; Westbrook/Westview and Gravesham Place Integrated Care Centres, providing nursing, respite and recuperative care to Older People; Integrated Community Equipment Store (ICES), provision of equipment to people with a Physical Disability to enable them to live independently in their own homes; and Learning Disability Integrated Staffing, which has established joint structures to support closer partnership working.

KDAAT	2008-09 £'000	2007-08 £'000	RNCC	2008-09 £'000	2007-08 £'000
Gross Funding			Gross Funding		
West Kent PCT	2,581	2,531	Eastern & Coastal Kent PCT	4,006	3,924
National Treatment Agency	6,464	6,808	West Kent PCT	4,025	3,548
KCC	1,651	1,639			
Total Funding	10,696	10,978	Total Funding	8,031	7,472
Expenditure	10,696	10,978	Expenditure	8,031	7,472
Net	0	0	Net	0	0

Westbrook/West View PFI	2008-09 £'000	2007-08 £'000	ICES	2008-09 £'000	2007-08 £'000
Gross Funding			Gross Funding		
Eastern & Coastal Kent PCT	2,929	2,768	Eastern & Coastal Kent PCT	607	569
Kent Adult Social Services	3,532	3,370	West Kent PCT	164	140
PFI Credits	1,355	1,379	Medway PCT	0	15
			Medway Council	28	45
			Kent Adult Social Services	480	580
Total Funding	7,816	7,517	Total Funding	1,279	1,349
Expenditure	7,816	7,517	Expenditure	1,279	1,349
Net	0	0	Net	0	0

Gravesham Place PFI	2008-09 £'000	2007-08 £'000	LD Integrated Staffing	2008-09 £'000	2007-08 £'000
Gross Funding			Gross Funding		
West Kent PCT	2,508	2,481	Eastern & Coastal Kent PCT	1,857	1,535
Kent Adult Social Services	4,562	2,637	Kent & Medway NHS & Social Care Partnership Trust	1,437	1,403
			Kent Adult Social Services	3,504	3,275
Total Funding	7,070	5,118	Total Funding	6,798	6,213
Expenditure	7,070	5,118	Expenditure	6,798	6,213
Net	0	0	Net	0	0

15. Long Term Contracts**PFI****Westbrook and West View**

In 2008-09 the authority made payments of £3.4m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Authority is committed to making payment of £3.2m for 2009-10 under this PFI contract. The actual amount paid will depend on the performance of ICS in delivering the services under the contract which will run until April 2033.

Gravesham Place

In 2009-10 the authority is committed to making payments estimated at £2.2m per year under a contract with Land Securities for the maintenance and facilities management, including laundry and catering, of Gravesham Place integrated care centre. The actual amount is subject to an annual inflationary uplift, and is also dependent on the performance of Land Securities in delivering the services under the contract (£2.2m was paid in 2008-09). The contract will run until April 2036.

Swan Valley and Craylands and 6 new schools

On 24 May 2001, the Council contracted with New Schools (Swanscombe) Ltd to provide Swan Valley Secondary School and Craylands Primary School under a Private Finance Initiative (PFI). The schools opened in October 2002. Under the PFI contract the Council pays an agreed charge for the services provided by the PFI contractor. The unitary charge commenced in October 2002, PFI credits were received from April 2003 and were backdated to October 2002. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £65.5m over the 25 year (termination end of September 2027) contract period.

On 7 October 2005, the Council contracted with Kent Education Partnership to provide 6 new secondary schools (Hugh Christie Technology College, Holmesdale Technology College, The North School, Ellington School for Girls, The Malling School and Aylesford School - Sports College) under a Private Finance Initiative (PFI). The development of these schools straddles both the 2006-07 and 2007-08 financial years. Three of these schools opened part of their new buildings during the 2006-07 financial year (Hugh Christie, Holmesdale and The North). The other three schools opened their new buildings during 2007-08 (Ellington School for Girls, The Malling and Aylesford). The unitary charge commenced in November 2006, PFI credits commenced in June 2007 and were backdated to November 2006. This charge is included in the Council's revenue budget and outturn figures. At the time the contract was signed the total estimated contract payments were £373.9 million over the 28 year contract period.

Under the terms of the PFI, the design and build of the school facilities and their subsequent maintenance are the responsibility, and risk, of the PFI provider. These assets will then transfer to the Council at nil cost at the end of the contract. Any differences between the residual value and the fair value of the assets will be accounted for in future years. As a result of the treatment of the assets, there is no obligation on the Council to provide credit cover for the construction of the schools.

These PFI schemes have been classified as "off balance sheet", and payments to contractors will be treated as revenue expenditure.

Central Government provides a grant to support the PFI schemes. This Revenue Support Grant is based on a formula related to the Capital Expenditure in the scheme: this is called the notional credit approval, and amounts to £11.62m of credits for Swan Valley and Craylands and £80.75m for the 6 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 and 28 years respectively. This grant amounts to just under £23m and just over £177m over the respective periods.

Better Homes Active Lives PFI

In October 2007 the authority signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 357 units of which 275 units are Extra Care accommodation, 75 units for people with learning difficulties and 7 units for people with mental health problems. The construction phase will last for two years and the contract for the provision of services will last until 2038-39. In 2008-09 the authority will pay £66k to the contractor as two of the buildings were completed and ready for occupation. More of the buildings will be completed during the following year and it is anticipated that the authority will pay £3.8m under this contract during 2009-10.

16. Landfill Allowance Trading Scheme

The Authority has received allowances for the year 2008-09 for 331,434 tonnes. The estimated BMW landfill usage is 241,492 tonnes, It does not buy or sell any allowances in the year or during the reconciliation period. DEFRA has advised that the average traded value of 2008-09 has been £26.

Notes to the Balance Sheet

17. Movement on Fixed Assets

	Land and buildings	Vehicles, plant and equipment	Roads and other Highways Infrastructure	Community assets	Assets Under Construction	Surplus, non-operational and investment property	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 1 April 2008	1,522,259	51,754	976,800	8,047	256,871	88,720	2,904,451
Additions	30,778	14,822	66,012	458	156,462	105	268,637
Donations							0
Disposals	-15,673	-947				-8,105	-24,725
Reclassifications	-1,273					1,287	14
Revaluations	29,605	297				27,437	57,339
Transfer from/to WIP	37,660	13	20,619		-58,292		0
Transfer from WIP to revenue					-20,429		-20,429
At 31 March 2009	1,603,356	65,939	1,063,431	8,505	334,612	109,444	3,185,287
Depreciation and Impairments							
At 1 April 2008	-78,881	-30,178	-408,160			-393	-517,612
Charge 2008/09	-73,584	-7,711	-48,840		-6,878	-1,437	-138,450
Depreciation to Landscape Services	-55						-55
Disposals	419	878				26	1,323
Reclassification	307	-117				-321	-131
Revaluations	18,527					-826	17,701
At 31 March 2009	-133,267	-37,128	-457,000	0	-6,878	-2,951	-637,224
Balance Sheet amount at 31 March 2009	1,470,089	28,811	606,431	8,505	327,734	106,493	2,548,063
Balance Sheet amount at 1 April 2008	1,443,378	21,576	568,640	8,047	256,871	88,327	2,386,839
Nature of asset holding							
Owned	1,456,417	28,555	606,431	8,505	307,099	106,493	2,513,500
Finance Lease		256					256
PFI/Academies	13,672				20,635		34,307
	1,470,089	28,811	606,431	8,505	327,734	106,493	2,548,063

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 and Steve Conrathe MRICS of Mouchel, Peter Constable MRICS and David Parry FRICS of Cluttons, Jason Kirkaldy MRICS of Savills, Marcus Gordon MRICS of Altus Edwin Hill, Simon Williams MRICS for Glenny and Tom Dowman MRICS and Richard Haynes MRICS of King Sturge. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings £'000	Investment Properties £'000	Total £'000
Valued at current value in:			
2004/05	1,275,765		1,275,765
2005/06	549,970	960	550,930
2006/07	840,189	0	840,189
2007/08	189,011	0	189,011
2008/09	511,346	1000	512,346

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 2008-09 Communities land and buildings have been valued as well as those properties with a life more than 50 years and non operational assets requiring a new market valuation. 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). For each non operational asset a Market Value was provided.

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 2009 £'000	At 31 March 2008 £'000
Gross Book Value	8,091	8,091
Accumulated Depreciation	-7,836	-7,556
Value at 31 March 2009	255	535

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

	2008-09 £'000	2007-08 £'000
Less than one year	292	303
Between 2-5 years	2	293
	294	596

Aggregate finance charges allocated for the period up to the 31 March 2009 are £0.04m in respect of finance leases. Depreciation charges in 2008-09 were £279k and in 2007-08 were £422k.

Capital Expenditure and Financing

Capital expenditure was financed as follows:

	2008-09	2007-08
	£000's	£000's
Opening Capital financing requirement	1,071,090	1,010,127
Write back of Westerham funded from Prudential		-465
Capital investment		
Fixed Assets	269,684	219,100
Intangible assets	303	339
Deferred charges	39,381	28,560
	1,380,458	1,257,661
Sources of finance		
Capital receipts	10,503	23,819
Government grants and other contributions	144,318	109,498
Revenue contributions (including MRP)	58,105	53,254
Closing Capital Financing Requirement	1,167,532	1,071,090
Movement	96,442	60,963
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	24,081	12,168
Increase in underlying need to borrow (unsupported by Government financial assistance)	72,361	48,795
Increase/(decrease) in Capital Financing Requirement	96,442	60,963

Capital expenditure 2008-09

The main items of capital expenditure during the year were:

Highways Schemes	£'000	£'000
Bridge Strengthening / Maintenance Schemes	32,999	
Integrated Transport schemes	12,061	
Ashford Ring Road	6,354	
Eurokent	4,368	
Improving Roads & Footpaths	3,397	
Kent Highway Services Accommodation	3,168	
Arts and Business Centre - Folkestone	2,223	
Ashford New Town Improvement	1,807	
Fort Hill	1,614	
Major Scheme Design	1,497	
Everard Link	1,320	
Sittingbourne Northern Relief Road	1,181	
Gravesend Community Project	<u>1,103</u>	
		73,092
 Education Schemes		
Building Schools for the future	37,034	
Special Schools Review	18,901	
Children's Centres	11,402	
Dartford Campus	10,516	
Academies	8,490	
Modernisation Programme	6,868	
Harnessing Technology	5,587	
The Bridge Primary	3,799	
Archbishop Courteney	3,519	
Surestart	2,927	
Primary Pathfinder Programme	2,679	
Ashford Oaks and Horizon	2,660	
St James the Great	2,364	
Greenfields	2,173	
Astor of Hever	1,927	
Castle Hill Primary	1,804	
Tonbridge Girls Grammar	1,493	
Vocational Education Programme	<u>1,206</u>	
		125,349
 Chief Executive's Schemes		
Sustaining Kent - Kent Public Services Network	5,124	
Commercial Services VPE	2,170	
Gateway one stop shops	1,723	
		<u>9,017</u>
		207,458
Capital Devolved to Schools		51,486
Projects less than £1m		50,424
Total Capital Expenditure		<u><u>309,368</u></u>

Notes to the Core Financial Statements

Future capital expenditure commitments

At 31 March 2009 contractually committed capital expenditure to be incurred in 2009-10 and later years includes the following major projects:

	£'000
Highways Schemes	
Surfacing Works	850
Education Schemes	
New Line Learning Academy	20,498
St Georges School	15,287
Dane Court Grammar School	15,138
Herne Bay High School	14,408
Northfleet School for Girls	12,579
Community College, Whitstable	11,353
Charles Dickens School	10,634
King Ethelbert School	10,029
The Manor School	5,686
Grange Park School	4,837
The Bridge School	4,396
Rowhill School	3,582
Oakfield Primary School	3,085
Valence School	2,753
Castle Hill School	1,838
Lawn House at Valence School	1,219
Meadowfield School	1,066
Swanscombe at Swan Valley	754
Milestone School	739
St James the Great School	622
Leysdown Warden Bay	585
Briary Primary School	581
Priory Infant School	546
Callis Grange School	535
Lawn Primary School	482
Chief Executives	
Sustaining Kent - Kent Public Services Network	6,375
Communities	
Turner Gallery	14,049
Total Commitments	<u>164,506</u>

Analysis of major operational asset holdings

	At 31 March 2009	At 31 March 2008
Schools (excludes voluntary aided schools and academies)	478	483
Libraries, adult education, discovery and youth centres	112	114
Smallholdings	7	5
Homes and day centres for the elderly	18	18
Facilities for children and their families	47	49
Facilities for people with disabilities	12	12
Recreation sites	30	30
Household Waste sites	18	18
County roads	8,423km	8,403km
County offices	6	10

18. Movement in intangible assets

	Purchased Software licences £000s	Total £000s
Original cost	12,008	12,008
Amortisation to 1 April 2008	-8,379	-8,379
Balance at 1 April 2008	3,629	3,629
Expenditure in year	1,282	1,282
Written off to revenue in year	-1,360	-1,360
Balance at 31 March 2009	3,551	3,551

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

19. Amounts owed to the Council by debtors

	At 31 March 2009 £000's	At 31 March 2008 £000's
Long Term debtors:		
Housing Act advances (mortgages)	2	14
Medway Council (transferred debtor)	51,249	53,385
Public bodies	2,717	3,009
Other (incl PFI debtor)	8,911	4,058
	62,879	60,466
Other debtors:		
Staff advances	54	58
Government Departments	47,474	48,744
Payments in advance (incl PFI)	35,039	31,250
General debtors	122,539	97,466
	205,106	177,518

Capital debtors amounting to £18.5m are included in the Accounts at 31 March 2009 (£20.9m in 2007-08). Capital debtors relate to grants towards capital expenditure incurred in 2008-09 which had not been received by 31 March 2009.

PFI

	At 31 March 2009 £000's	At 31 March 2008 £000's
Long term PFI debtors		
Long term prepayment	-385	-385
Long term debtor in relation to residual value	8,552	4,318
	8,167	3,933

PFI Prepayment

	At 31 March 2009 £000's	At 31 March 2008 £000's
Short term PFI Prepayment	15,368	16,020
	15,368	16,020

20. Amounts owed by the Council to creditors

	At 31 March 2009 £000's	At 31 March 2008 £000's
Kent and Essex Sea Fisheries	781	701
Receipts in advance	65,393	63,034
General creditors	209,707	182,192
Other local authorities	5,245	2,827
Deferred capital receipts	2	14
Deferred income	2,785	2,116
Government departments	14,834	15,804
	298,747	266,688

Capital creditors amounting to £50.3m are included in the Accounts at 31 March 2009 (£43.5m in 2007-08).

21. Net Assets Employed

Net assets analysed between Kent County Council and trading operations.

	At 31 March 2009 £'000	At 31 March 2008 £'000
General Fund	2,715,880	2,651,757
Trading Accounts	6,145	5,645
	2,722,025	2,657,402

22. 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 08 £'000	Movement in year £'000	Balance at 31 March 09 £'000
Insurance Provision	-10,846	36	-10,810
Other Provisions	-3,790	111	-3,679
	-14,636	147	-14,489

The £3,679k in other provisions comprises some 17 provisions ranging from just over £890k to £6k.

23. Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2008 £'000	Net Movement in year £'000	Balance 31 March 2009 £'000	Purpose of Reserve
Revaluation Reserve	-72,530	-59,382	-131,912	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-1,071,609	-9,579	-1,081,188	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	20,803	6,912	27,715	Movements in fair value of assets and premiums
Usable Capital Receipts	-7,825	-6,554	-14,379	Proceeds of fixed assets available to meet future capital investment
Pensions Reserves				Balancing account to allow inclusion of Pensions
- KCC	569,300	170,600	739,900	Liability in Balance Sheet
- DSO	2,447	-248	2,199	
General Fund	-25,835	0	-25,835	Resources available to meet future unforeseen events
Earmarked Capital Reserve	-52,436	-17,708	-70,144	See note below
Earmarked Reserves	-86,015	-15,987	-102,002	Note (pages 44-46)
Schools Reserve	-79,360	16,177	-63,183	Note on page 47
Surplus on Trading Accounts	-458	235	-223	Note on page 52
Total	-803,518	84,466	-719,052	

Earmarked capital reserves of £70,144k as at 31 March 2009 includes schools capital reserves of £9,469k. This has reduced from the £16,981k held by schools as at 31 March 2008.

Earmarked Reserves

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2008 or 31 March 2009, the sum of which are shown in the table on page 46.

Vehicles, plant and equipment

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

Special funds

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

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. In the current economic climate, sale of development land has declined considerably, we are therefore currently holding a deficit balance on this reserve but it is expected that it will go back into surplus once the economic situation improves.

Swanscombe School PFI equalisation reserve

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

Westview and Westbrook PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, Section 31 pooled budget contributions and government grant funding for the Westview and Westbrook PFI scheme.

Better Homes Active Lives PFI equalisation reserve

This has been established to equalise, over time, the budget impact of unitary charge payments, contract management costs and government grant funding for the Better Homes Active Lives scheme.

Reserve for projects previously classified as capital but now considered to be revenue

This has been established to cover the costs of projects which were included in the capital programme but further details are now available which have made it apparent that these costs are revenue. By switching around funding within the existing capital programme, so that revenue contributions to capital made in 2008-09 have been switched with other capital funding sources, we have been able to create this reserve to manage these revenue costs over the medium term.

Supporting People reserve

This is unspent grant from previous years which will be used to smooth out the loss of grant funding in future years.

Every Child Matters Contact Point reserve

This is unspent Contact Point grant from the DCSF to support the implementation of the Information Sharing Index in all authorities. There have been national delays in the implementation of this system.

Environmental Initiatives reserve

This reserve represents funds in hand relating to a variety of environmental initiatives involving other partners.

Rolling budget reserve

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

Economic Downturn Reserve

This reserve is to cover the impact of the economic downturn which cannot be covered within normal revenue budget allocations.

Asylum reserve

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

Emergency Conditions reserve

This reserve is to cover the cost of emergencies which cannot be accommodated within normal revenue allocations, such as the costs associated with severe weather conditions.

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.

Dilapidations reserve

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

Workforce reduction reserve

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

South East Improvement and Efficiency Partnership reserve

This is unspent grant from the DCLG to fund the administration of the South East Improvement and Efficiency Partnership, which is undertaken by KCC.

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) reserve

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

Earmarked Reserve to support next years budget

The medium term plan for 2009-12 includes support from 2008-09 underspending, which was transferred into this earmarked reserve during 2008-09 to be drawn down in 2009-10.

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. This will be used in the short to medium term to pay for PEF 2 borrowing costs.

Six Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 6 schools' PFI scheme. The reserve comprises of contributions from the Education revenue budget, contributions from schools and a proportion of grant funding received from the Government.

Dedicated Schools Grant (Central Expenditure) Reserve

This is unspent Dedicated Schools Grant for central expenditure, which in accordance with the DCSF grant regulations must be carried forward for use in future years and spent in accordance with school financial regulations.

Insurance reserve

This is a reserve for the potential cost of insurance claims in excess of the amount provided for in the insurance fund provision.

Landfill Allowance Taxation Scheme Reserve

The government allocates each Waste Disposal Authority a quota of Landfill Allowance permits. This determines the amount of biodegradable waste the Authority can send to landfill sites. These permits can either be used, banked for future use or traded with other waste disposal authorities. This reserve represents the value of cumulative unsold Landfill Allowance permits. National guidance on the value per permit is used to calculate the value of this reserve. The reserve is only realised when and if these permits are actually sold.

Notes to the Core Financial Statements

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 2008-09 or future years as initiatives are completed.

Other Earmarked Reserves	Balance at 1 April 2008	Movement	Balance at 31 Mar 2009
	£'000	£'000	£'000
VPE Reserve	-3,814	-483	-4,297
Special funds	-2,217	-1,346	-3,563
Office Strategy	-682	367	-315
Kings Hill development smoothing reserve	-1,596	2,000	404
Swanscombe School PFI equalisation reserve	-5,309	-275	-5,584
Westview/Westbrook PFI equalisation reserve	-855	-567	-1,422
Better Homes Active Lives PFI equalisation reserve	13	-1,942	-1,929
Reserve for projects previously classified as capital	0	-5,644	-5,644
Economic Downturn reserve	0	-1,173	-1,173
Supporting People Reserve	-9,276	-406	-9,682
Every Child Matters Contact Point reserve	-533	-20	-553
Environmental initiatives reserve	-3,231	1,295	-1,936
Rolling budget reserve	-7,889	393	-7,496
Asylum Reserve	0	-4,093	-4,093
Emergency Conditions Reserve	-813	-600	-1,413
Elections Reserve	-706	-206	-912
Dilapidations reserve	-1,795	70	-1,725
Workforce Reduction reserve	-2,402	-531	-2,933
South East Improvement and Efficiency Partnership	-1,035	320	-715
IT Asset Maintenance reserve	-6,159	1,340	-4,819
PRG Reserve	-1,051	-2,130	-3,181
Earmarked Reserve to support next years budget	-1,435	-2,734	-4,169
Prudential Equalisation Reserve	-9,119	1,465	-7,654
Six schools PFI	-4,107	-1,782	-5,889
Dedicated Schools Grant - Central Expenditure	-3,428	-2,407	-5,835
Other	-6,091	670	-5,421
Total	-73,530	-18,419	-91,949
Insurance Reserve			
KCC	-10,206	965	-9,241
LATS Reserve			
Landfill Allowance Taxation Scheme	-792	792	0
	-84,528	-16,662	-101,190
Commercial Services Earmarked Reserves	-1,487	675	-812
Total Earmarked Reserves	-86,015	-15,987	-102,002
Trading Reserves:			
Commercial Services Trading Account	-447	338	-109
Thanet Skills Studio	0	-125	-125
Oakwood House	-11	22	11
Schools Reserves	-79,360	16,177	-63,183
Total Movement as per I & E	-165,833	425	-165,408
Balance Sheet	-165,833	425	-165,408

School Reserves

At 31 March 2009 funds held in school revenue reserves stand at £63.184m. These reserves are detailed in the table below.

	Balance at 1 April 2008	Movement	Balance at 31 Mar 2009
	£'000	£'000	£'000
School delegated revenue budget reserves - committed	-39,240	17,334	-21,906
School delegated revenue budget reserves - uncommitted	-28,090	-1,629	-29,719
Unallocated Schools budget	-11,733	499	-11,234
Community Focused Extended School Reserves	-297	-28	-325
Total	<u>-79,360</u>	<u>16,176</u>	<u>-63,184</u>

The reduction in reserves of £16.176m is made up of the following:

	2008-09	2007-08
	£'000	£'000
Overspend (as per page 1). (Underspend in 2007-08)	<u>16,176</u>	<u>-4,984</u>
	16,176	-4,984

24. Assets and Liabilities in relation to retirement benefits

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2008-09	2007-08 as restated
	£000's	£000's
1 April	1,147,400	1,136,700
Expected rate of return	82,300	81,600
Actuarial gains and (losses)	-311,400	-111,000
Employer contributions	86,300	82,500
Contributions by scheme participants	23,000	20,400
Benefits paid	-61,300	-62,800
31 March	966,300	1,147,400

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £230,100k (2007-08: £62,200k)

Reconciliation of present value of the scheme liabilities:

	Funded Liabilities: Local Government Pension Scheme	
	2008-09	2007-08
	£000's	£000's
1 April	1,716,700	1,779,500
Current service cost	47,700	62,800
Interest cost	119,200	96,600
Contributions by scheme participants	23,000	20,400
Actuarial gains and (losses -)	-152,400	-177,600
Benefits paid	-65,800	-67,300
Past service costs	17,800	2,300
31 March	1,706,200	1,716,700

Notes to the Core Financial Statements

Scheme History

	2004-05*	2005-06*	2006-07 as restated	2007-08 as restated	2008-09
	£000's	£000's	£000's	£000's	£000's
Present value of liabilities:					
• Local Government Pension Scheme	-1,486,700	-1,764,800	-1,779,500	-1,716,700	-1,706,200
Fair value of assets in the Local Government Pension Scheme	787,800	1,040,200	1,136,700	1,147,400	966,300
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-698,900	-724,600	-642,800	-569,300	-739,900

* The council has elected not to restate fair value of scheme assets for 2004-05 and 2005-06 as permitted by FRS17 (as revised).

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £739.9m has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in a negative overall balance of £719m.

However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2010 is £83,500k.

Notes to the Core Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels, etc. The County Council Fund liability has been assessed by Uffarez, Ebbendean and Partners, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31st March 2007.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2008-09	2007-08
Long-term expected rate of return on assets in the scheme:		
Equity investments	7%	7.70%
Bonds	5.40%	5.70%
Other	8.90%	10.50%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.5 years	
Women	24.4 years	
Longevity at 65 for future pensioners:		
Men	22.6 years	
Women	25.5 years	
Rate of inflation	3.1%	3.6%
Rate of increase in salaries	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Rate for discounting scheme liabilities	6.9%	6.9%
Take-up option to convert annual pension into retirement lump sum	50%	50%

The pension scheme's assets consist of the following categories, by proportion of total assets held:

	March 2009	March 2008
	%	%
Equity Investments	66%	69%
Bonds	17%	14%
Other assets	17%	17%
	100%	100%

Notes to the Core Financial Statements

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2008-09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009:

	2005-06	2006-07	2007-08	2008-09
		as restated	as restated	
	%	%	%	%
Differences between the expected and actual return on assets	16.4	-0.6	-12.5	-32.3
Experience gains and losses on liabilities	0.0	0.0	4.3	0.0

DSO Pensions

The figure in the balance sheet reflects the unfunded liability as calculated by the actuary in March 2009 on a minimum risk basis. This basis represents a prudent set of assumptions and is closest to an FRS 17 figure.

Analysis of Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL)

	2008-09	2007-08	2006-07
	£000's	£000's	£000's
Actuarial Gains/Losses	-159,000	66,500	90,400
Increase / Decrease in irrecoverable surplus from membership fall and other factors	4,748	4,540	3,730
Actuarial gain / (loss) recognised in STRGL	-154,252	71,040	94,130

25. Surplus on Trading Accounts

	Balance at 1 April 08 £'000	Movement in the year £'000	Balance at 31 March 09 £'000
Commercial Services	-447	338	-109
Oakwood House	-11	22	11
Thanet Skills Studio	0	-125	-125
	-458	235	-223

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

Other Notes

26. 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 66 to 79.

27. The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2008-09.

28. Contingent Liabilities

Contingent Liabilities

Land, Planning & Highways

KCC faces a very significant claim for compensation which is being fiercely resisted. This case is a very complex case. The likely outcome is difficult to predict. KCC's exposure (including legal costs) should it lose is estimated at £20m.

There is one claim in which the Council has been ordered to pay costs and the Council's exposure is estimated to exceed £100K. The Council remains engaged in negotiations to resolve this case with minimum outlay.

There are ongoing claims seeking eviction/remedial action to bring licensees on one of the County Council's caravan sites to compliance with the terms of their licence. Legal costs have exceeded £10k.

Employment

There are nine claims relating to discrimination and breach of contract in employment. The damages being sought exceed £500k. Two claims have been lost although one is still being actively appealed with a recent victory in part at the Court of Appeal. On the other case, liability is set at £100k but with it there is a costs claim for £400k. It is expected that costs of this magnitude will not be awarded but a significant costs award is expected. It should be noted for the other cases that as there is no cap on damages in discrimination cases, where discrimination has been pleaded and these cases are lost, significant damages could be awarded.

Education

There are two cases, one involving an adult and the other a child. On both cases legal costs will exceed £10k. In relation to the adult case the prospects of success are good. On the other case the prospects of success is uncertain.

Immigration

There are numerous cases which have either been issued or are waiting for issue. The lead case has concluded in the high court. KCC was successful. However there is a linked case before the House of Lords which will determine whether the remaining cases continue. On the lead case KCC's legal costs exceeded £10k.

29. Cash flow Grant analysis

	2008-09	2007-08
	£'000's	£'000
Revenue Grants		
Department for Children Schools and Families	339,544	299,350
Department of Health	1,767	44,689
Home Office	22,417	9,804
Department for Transport		52
European Community	361	1,047
Department for Communities and Local Government	64,131	62,338
Cabinet Office		78
Department for Environment, Food and Rural Affairs	1,002	1,046
Department for Work and Pensions	147	178
Seeda - South East England Development Agency	649	857
Department for Culture, Media & Sport		188
Department for Business Enterprise & Regulatory Reform		104
NOF - New Opportunities Fund (Lottery)	660	96
	430,678	419,827
Capital Grants		
Department for Children Schools and Families	121,678	75,016
Department for Transport	6,515	21,244
Department for Communities and Local Government	19,193	8,164
Department of Health	249	2,539
Lottery and other	125	2,536
	147,760	109,499

30. Reconciliation of revenue surplus to revenue cashflow

	2008-09	2007-08
	£'000	£'000
Surplus(-)/Deficit for the year	0	0
Non-cash transactions		
Minimum revenue provision and amounts set aside from revenue	-42,032	-40,051
Contributions to reserves	-15,841	-23,089
Contributions to provisions	1,952	-2,957
	-55,921	-66,097
Items on an accruals basis		
Increase/decrease(-) in revenue debtors	28,163	-13,110
Increase(-)/decrease in revenue creditors	-25,283	-1,645
Increase/decrease(-) in stocks	547	-515
	-52,494	-81,367
Items shown later in the cashflow statement		
Servicing of finance	-41,517	-39,239
Net cashflow from revenue activities	-94,011	-120,606

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

	Balance	Balance	Movement
	1 April 2008	31 Mar 2009	in the year
	£'000	£'000	£'000
Cash overdrawn	-108,383	-103,339	-5,044
Decrease in cash			-5,044
Debt repayable within 1 year	-35	-60,505	-60,470
Debt repayable after 1 year	-1,002,596	-981,894	20,702
Investments	384,545	356,991	-27,554
Increase in net debt			-67,322

32. Definition of Liquid Resources

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

Trust Funds

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. In accordance with the recommendations of the Charities Commission these are not consolidated into the Council's accounts and are instead separately managed and subject to appropriate independent review.

Balance Sheet at 31 March

	2008-09	2007-08
	£	£
Current assets		
Investments	28,295	41,992
Debtors	84	681
Cash	74,440	89,600
	102,819	132,273
Represented by		
Trust funds -		
Capital	-28,666	-37,349
Revenue	-74,153	-94,924
	-102,819	-132,273

33. Financial Instruments

Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments

	Long Term		Current	
	Restated		31 Mar 2008	31 Mar 2009
	31 Mar 2008	31 Mar 2009		
	£'000	£'000	£'000	£'000
Financial liabilities (principal amount) This is the actual value of the loan, not arising from any adjustments	1,002,453	981,895	35	60,505
Financial liabilities at amortised cost	1,017,200	998,427	35	60,641
Total borrowings	1,017,200	998,427	35	60,641
Loans and receivables (principal amount) This is the actual value of the loan, not arising from any adjustments	126,000	91,000	258,545	265,991
Loans and receivables	134,547	96,267	264,121	262,949
Total Investments	134,547	96,267	264,121	262,949

The difference between £981.895m and the figure on the balance sheet of £998.427m is accrued interest of £12.899m and discounts of £3.633m. The difference between £60.504m and the balance sheet figure of £60.641m is accrued interest of £136k.

The difference between £265.991m and the figure on the balance sheet of £262.949m is accrued interest of £5.039m less the net impairment charge for Iceland of £8.081m. The difference between £91m and the figure on the balance sheet of £96.267m is accrued interest of £5.267m.

Notes to the Core Financial Statements

Financial Liabilities at amortised cost

Long term

2008-09

£'000

Restated

2007-08

£'000

Long Term Borrowing

Amounts still owed on loans received from external bodies to acquire capital assets.

Long term borrowing for repayment after 1 year	981,895	1,002,453
Total Long Term Borrowing at 31 March	981,895	1,002,453

Current

£'000

£'000

Borrowing

Long term borrowing for repayment within 1 year

Temporary Borrowing	60,504	35
Total Borrowing at 31 March	1,042,399	1,002,488

Creditors

£'000

£'000

The analysis of creditors by category is:

Government grants	6,162	6,991
Other	292,585	259,697
Balance at 31 March	298,747	266,688

Financial Instruments Gains / Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows

	Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost £000	Loans and receivables £000	Total £000
Interest expense	-55,713		
Losses on derecognition	-950		
Impairment losses	0	-8,081	
Interest payable and similar charges	-56,663	-8,081	-64,744
Interest income		19,793	
Gains on derecognition	391	0	0
Interest and investment income	391	19,793	20,184
Gains on revaluation	0	0	
Losses on revaluation	0	0	
Amounts recycled to the I&E account after impairment	0	0	
Surplus arising on revaluation of financial assets	0	0	
Net gain/(loss) for the year	-56,272	11,712	

Notes to the Core Financial Statements

Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the PWLB and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the principal outstanding or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

£000's	31 March 2009		31 March 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
PWLB debt	673,098	816,102	661,225	781,580
Non-PWLB debt	385,970	405,039	355,832	385,819
Total debt	1,059,068	1,221,141	1,017,057	1,167,399
Trade Creditors	46,342	46,342	56,921	56,921
Total financial liabilities	1,105,410	1,267,483	1,073,978	1,224,320

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the balance sheet date.

Money market loans <1 year	271,031	271,031	273,349	273,349
Money market loans >1 year	96,267	101,085	124,333	121,093
Bonds				
Trade debtors	5,141	5,141	7,442	7,442
Total loans and receivables	372,439	377,257	405,124	401,884

The differences are attributable to fixed interest instruments payable being held by the authority whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair values for financial liabilities have been determined by reference to the Public Works Loans Board (PWLB) redemption rules and prevailing PWLB redemption rates as at each balance sheet date, and include accrued interest. The fair values for non-PWLB debt has also been calculated using the same procedures and interest rates and this provides a sound approximation for fair value for these instruments. It should be noted that the redemption rules applying to PWLB debt changed on 1 November 2007, and are less favourable than the previous procedures. As a result the fair value figures for 31 March 2009 are relatively higher (more costly to redeem) than the 31 March 2008 comparators.

The fair values for loans and receivables have been determined by reference to the Public Works Loans Board (PWLB) redemption rules which provide a good approximation for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken from indicative investment rates at each balance sheet date. In practice rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures and the difference would be immaterial.

Key Risks

The Council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance, prudential indicators for the following three years limiting:
 - o The Council's overall borrowing;
 - o Its maximum and minimum exposures to fixed and variable rates;
 - o Its maximum and minimum exposures to the maturity structure of its debt;
 - o Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year, setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported annually to Members.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

This risk is managed through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Ratings Services. The Annual Investment Strategy also imposes a maximum amount and time to be invested with a financial institution located within each category. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

The following analysis summarises the Authority's maximum exposure to credit risk. The table (from Fitch) gives details of global corporate finance average cumulative default rates (including financial organisations) for the period 1990 – 2008 on investments out to 5 years.

	Amount at 31 Mar 2009 £000	Historical experience of default %	Adjustment for market conditions at 31 Mar 09 %	Estimated maximum exposure to default £000
	(a)	(b)	(c)	(a*c)
Deposits with banks and financial institutions				
AAA rated counterparties	42,000	0.000	0.000	0
AA rated counterparties	127,691	0.007	0.007	9
A rated counterparties	136,950	0.010	0.010	14
Other counterparties	50,350	0.000	0.627	316
Bonds - AAA rates		0.001	0.001	
Trade debtors	5,141	2.000	2.000	103
	362,132			442

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £50.350m invested in this sector at that time and this has been included in the above table. An impairment is shown in the accounts and is detailed on pages 63-65.

The Council does not generally allow credit for its trade debtors, as such £1.179m of the £5.1m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31 March 2009 £000	31 March 2008 £000
Less than three months	575	491
Three to six months	275	183
Six months to one year	169	19
More than one year	160	354
	1,179	1,047

The Council initiates a legal charge on property where, for instance, clients require the assistance of social services but cannot afford to pay immediately. The total collateral at 31 March 2009 was £27.5m.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Our Medium Term Plan also sets targets for liquidity ratios, which are approved as part of the

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved prudential indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	31 March 2009	31 March 2008
	<u>£000</u>	<u>£000</u>
Less than one year	60,505	35
Between one and two years	45,031	35
Between two and six years	183,254	30,091
Between six and fifteen years	187,005	240,199
More than fifteen years	566,604	732,271
	<u>1,042,399</u>	<u>1,002,631</u>

The maturity analysis of financial assets is as follows:

	31 March 2009	31 March 2008
	<u>£000</u>	<u>£000</u>
Less than one year	265,991	268,545
Between one and two years	20,000	34,000
Between two and three years	15,000	29,000
More than three years	56,000	53,000
	<u>356,991</u>	<u>384,545</u>

All trade and other payables £46.3m are due to be paid in less than one year and are not shown in the table above.

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise;
- borrowings at fixed rates – the fair value of the borrowing liability will fall;
- investments at variable rates – the interest income credited to the Income and Expenditure Account will rise; and
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments will be reflected in the STRGL, unless the investments have been designated as Fair Value through the Income and Expenditure Account, in which case gains and losses will be posted to the Income and expenditure account.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

All the Council's liabilities and assets are at fixed rates and so will not be affected by changes in interest rates. Neither does the Council hold investments that could lose capital value. Nevertheless through its Treasury Management Strategy the Council takes full cognizance of the impact changes in interest rates will have on the overall financing costs of the Council

Price Risk - The Council, excluding the pension fund, does not generally invest in equity shares.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

34. Investments in Icelandic banks

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority has £50.35m deposited across 3 of these institutions, with varying maturity dates and interest rates as follows:

Bank	Date Invested	Maturity Date	Amount Invested £000's	Interest Rate	Carrying Amount £000's	Impairment £000's
Heritable	18/08/08	17/08/09	1,500	6.15	1,557	481
Heritable	08/11/07	10/11/08	2,000	6.19	2,173	670
Heritable	03/09/08	03/11/08	2,000	5.6	2,064	619
Heritable	01/10/08	30/10/08	3,250	6.1	3,349	1,032
Heritable	02/05/08	23/12/08	4,600	5.9	4,848	1,476
Heritable	02/10/08	02/07/09	5,000	6.25	5,154	1,601
Glitnir	06/02/08	06/02/09	5,000	5.5	5,316	382
Glitnir	20/08/08	19/08/09	5,000	6.3	5,193	428
Glitnir	21/10/08	19/01/09	5,000	6.285	5,372	591
Landsbanki	08/11/07	10/11/08	2,000	6.19	2,173	417
Landsbanki	22/04/08	22/04/09	5,000	6	5,283	995
Landsbanki	02/05/08	05/05/09	5,000	5.96	5,273	988
Landsbanki	19/09/08	24/10/08	5,000	5.93	5,158	966
Total			50,350		52,913	10,646

Of this £50.35m, £1.3m was deposited on behalf of the Kent and Medway Fire Authority and £16m on behalf of the Pension Fund. The current predicted loss for the Council is £3.4m. Debtors of £1.2m have been raised for the Fire Authority and the Pensions Fund. However, under FRS 26 we are required to account for the cashflows at fair value. This means that the cashflows have been discounted to give a net present value which means that we have an impairment figure of £10.646m in the accounts. This figure does not have any impact on Council Tax as the Regulations permit us to remove this through the Statement of Movement on the General Fund Balance to the Financial Instruments Adjustment Account.

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors, including the Council, will be determined by the administrators / receivers.

The current situation with regards to the recovery of the sums deposited varies between each institution. Based on the latest information available the Authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

Heritable Bank

Heritable bank is a UK registered bank under English Law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 09 outlined that the return to creditors was projected to be 80p in the £ by the end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. Therefore in calculating the impairment of the Authority it has made the following assumptions re timing of the recoveries:

July 2009	15%
July 2010	30%
July 2011	15%
July 2012	10%
July 2013	10%

Recoveries are expressed as a percentage of the authority's claim in the administration, which included interest accrued up to 6 October 2008.

Landsbanki

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (New Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100% could be achieved, and the Authority has taken a mid point position and assumed recovery at 95% by 2012. The Authority has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic Courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetables for Heritable and KS&F as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008 [Maturity date if earlier].

Glitnir Bank hf

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors on 6 February 2009 and can be viewed on its website. This indicates that full recovery of the principal and interest to 14 November 2008 is likely to be a achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic Courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the Authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The authority has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 [maturity date if earlier] in the future. The impairment therefore reflects the loss of interest to the Authority until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential credit status is not achieved the recoverable amount may only be 40p in the £.

Notes to the Core Financial Statements

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the authority has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008

The impairment loss recognised in the Income and Expenditure Account in 2008-09, £10.646m, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Adjustment to the assumptions will be made in future accounts as more information becomes available

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £8.081m has been transferred to the Financial Instruments Adjustments Account. The balance £2.565m relates to interest which has been borne in full by the General Fund.

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) 694603 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 and overseas. Employees' contribution rates range from 5.5% to 7.5% of pensionable pay, determined by a seven tier structure based on the level of whole-time pensionable pay as at 1 April in each year. 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 2007 and this set Kent County Council's employer contribution rate at 23.1% of payroll for the three year period commencing 1 April 2008.

The market value of the Fund's assets at the valuation date was £2,573m and the liabilities were £3,558m. The assets therefore, represent 73% of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions used were as follows -

Valuation of assets:-	assets have been valued at a 12 month smoothed market value
Rate of return on investments	6.1% p.a.
Rate of general pay increases:-	4.7% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):-	3.2% p.a.

The main result of this valuation was to show that the funding level had increased from 63% to 73%.

The next actuarial valuation is due as at 31 March 2010 and any change in employer contribution rates as a result of that valuation will take effect from 1 April 2011.

The Fund has been accepted by the Inland Revenue as a registered pension scheme in accordance with paragraph 1(1) of Schedule 36 to the Finance Act 2004 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.

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 (revised May 2007). 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.

Pension Fund cash which is not required on a day to day basis to pay benefits or administrative expenses of the Pension Fund must be invested on behalf of the Pension Fund by Kent County Council. Kent County Council is required, in accordance with the Local Government Pension Scheme (Management and Investment) Regulations 1998, to pay interest to the Pension Fund on these cash investments. The rate of interest is that earned on the Kent County Council investment portfolio. 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 the following documents: Statement of Investment Principles; Funding Strategy Statement; Governance Compliance Statement and Communication Policy. These documents are 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. Statement of Recommended Practice

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 (revised May 2007). 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.

2. Investments

Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2009. 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.

Derivatives with an initial purchase price are included in the accounts as purchases. Those that do not have an initial purchase price but require a deposit such as an initial margin to be placed with the broker are recorded at cost on purchase. Derivative contracts are included in the net asset statements at fair value.

Open Future contracts are recognised in the net asset statement at their fair value. Amounts included in the change in market value represent realised gains or losses on closed future contracts and the unrealised gains or losses on open future contracts

The industrial and commercial properties were valued at open market prices in accordance with the valuation principles laid down by the Royal Institution of Chartered Surveyors. The valuation has been undertaken by Colliers CRE, as at 31 December 2008

The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2009.

3. Currency Transactions

Assets and liabilities in foreign currency are translated into sterling at exchange rates ruling at the year-end. Differences arising on the translation of investments are included in investment gains.

All foreign currency transactions are translated into sterling at exchange rates ruling at the transaction date.

4. Contributions, Benefits and Transfer Values

· Normal contributions from County Council members, are accounted for in the payroll month to which they relate, contributions from members of other employers are accounted for on a received basis. All contributions are 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.

5. Investment Income

· 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.

6. Expenditure

All expenses and benefits are accounted for on an accruals basis except that no account is taken of the long-term liabilities to pay benefits

The administrative costs relating to the payment of pension, allowances and other benefits, maintaining employees records, arranging transfer values etc are borne by the Pension Fund.

Costs relating to investments are also borne by the Fund. Fees in respect of investment management, including custody, are calculated as a percentage of the value of the investments under management.

Pension Fund Accounts

Fund Account for the year ended 31 March 2009

	Notes	2009 £'000	2008 £'000
Contributions and Benefits			
Contributions Receivable:			
From employers	1	171,710	158,769
From employees	1	47,245	42,163
Transfers In	2	8,555	15,292
		227,510	216,224
Benefits Payable			
Pensions	3	-114,119	-106,080
Lump Sums	3	-32,924	-27,632
Payments to and on account of leavers			
Refunds of contributions		27	-2
Transfers Out	4	-9,487	-10,559
Administrative & other expenses borne by the scheme	5	-2,833	-2,768
		-159,336	-147,041
Net additions/withdrawals(-) from dealings with Members		68,174	69,183
Returns on Investments			
Investment Income	6	76,533	67,125
Change in Market Value of Investments	7	-564,920	-213,213
Overseas Irrecoverable Taxation		-2,177	-1,193
Loss on Icelandic Investment	9	-1,104	0
		-491,668	-147,281
Investment Management Expenses			
Investment Managers		-5,152	-6,125
Actuarial (Investment Consultancy)		-45	-44
Performance Measurement		-49	-60
Other expenses		24	-215
		-5,222	-6,444
Net Return on Investments		-496,890	-153,725
Net increase/decrease(-) in Fund during the year		-428,716	-84,542
Opening Net Assets of the Scheme at 1st April		2,489,098	2,573,640
Closing Net Assets of the Scheme at 31st March		2,060,382	2,489,098

Pension Fund Accounts

Net Assets Statement as at 31 March 2009

	Notes	2009		2008	
		£'000	£'000	£'000	£'000
Investments at Market Value	7				
Fixed Interest Securities					
- Public		85,953		111,139	
- Other		98,200		79,386	
			184,153		190,525
Equities					
- UK		332,331		580,397	
- Overseas		439,050	771,381	571,946	1,152,343
Pooled Investment Vehicles					
- UK		529,814		429,135	
- Overseas		214,317		273,033	
- Property		37,344	781,475	55,633	757,801
Derivative Contracts			38,321		63,415
Property - Freehold			142,262		201,087
Cash Deposits			45,159		18,508
Other Investments			11,810		15,721
			<u>1,974,561</u>		<u>2,399,400</u>
Investment Liabilities	8		-29,890		-36,104
Current Assets	8		122,282		132,137
Current Liabilities	8		-6,571		-6,335
Net Assets			<u>2,060,382</u>		<u>2,489,098</u>

As there has been a change in accounting for derivatives applicable to the 2008-09 accounts, asset values for 2007-08 have been re-analysed to provide comparative figures.

The accounts summarise the transactions of the Pension Fund and deal with the net assets available. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Pension Fund year. The actuarial position of the Pension Fund, which does take account of such obligations is dealt with in the Actuary's Report included in the Annual Report and these accounts should be read in conjunction with that report. The full actuarial valuation is available on www.kent.gov.uk

Notes to the Pension Fund Account

1. Contributions Receivable

		2009	2008
		£'000	£'000
From Employers	Normal	106,366	76,166
	Special (Early Retirements recoverable costs)	8,704	6,534
	Deficit Funding	56,640	76,069
		171,710	158,769
Analysis of Employers' Contributions	Kent County Council	78,628	75,040
	Scheduled Bodies	83,242	74,160
	Admitted Bodies	9,840	9,569
		171,710	158,769
From Employees	Kent County Council	21,084	18,780
	Scheduled Bodies	23,354	20,901
	Admitted Bodies	2,752	2,388
	Lump Sum Contributions	55	94
		47,245	42,163
Note:	As at 31 March the comparative numbers of members are:	2009	2008
	Kent County Council	22,039	21,722
	Scheduled Bodies	19,380	18,938
	Admitted Bodies	1,966	1,853
		43,385	42,513

2. Transfers In

		2009	2008
		£'000	£'000
Individual		8,555	15,292
Bulk		0	0
		8,555	15,292

Notes to the Pension Fund Account

3. Benefits Payable

	KCC	Scheduled Bodies	Admitted Bodies	2009	2008
	£'000	£'000	£'000	£'000	£'000
Pensions					
Retirement pensions	35,059	36,701	3,384	75,144	70,399
Widows' pensions	2,192	2,703	229	5,124	4,984
Children's allowances	62	108	11	181	203
Pensions increase	17,703	19,333	1,092	38,128	34,879
Less benefits recovered directly from employing authorities	0	-4,334	-124	-4,458	-4,385
	55,016	54,511	4,592	114,119	106,080
Lump Sums					
Retirement (Lump Sums)	12,108	16,313	1,437	29,858	25,000
Death gratuities	1,453	1,522	91	3,066	2,632
	13,561	17,835	1,528	32,924	27,632

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.

4. Transfers Out

	2009	2008
	£'000	£'000
Individual	9,487	10,559
Bulk	0	0
	9,487	10,559

5. Administrative and other Expenses borne by the Scheme

	2009	2008
	£'000	£'000
Internal Administration	2,474	2,399
Actuarial Fees	158	239
Audit Fee	55	61
Legal and Other Professional Fees	91	59
Other miscellaneous expenses	55	10
	2,833	2,768

The Legal & Other Professional has been restated for 2007/08 to reflect £43,000 of legal fees which are charged as part of the Internal Administration (also restated)

6. Summary of Income from Investments

	2009		2008	
	£'000	%	£'000	%
Fixed Interest				
- UK	8,471	12.08	8,543	12.73
- Overseas	2,395	3.42	1,529	2.28
Equities				
- UK	19,671	28.06	23,597	35.15
- Overseas	16,462	23.48	12,948	19.29
Pooled Investment Vehicles				
- UK	2,500	3.57	2,442	3.64
- Overseas	5,132	7.32	1,311	1.95
- Property	1,557	16.59	1,257	1.87
Property - Freehold	11,629	2.22	10,354	15.42
Total Income From Investments	67,817	96.74	61,981	92.33
Currency Deposit Accounts	26	0.04	213	0.32
Cash Balances	8,143	2.44	4,673	6.96
Sub-Underwriting Commission/other	173	0.25	38	0.06
Stock Lending	374	0.53	220	0.33
Total	76,533	100.00	67,125	100.00

Notes to the Pension Fund Account

7. Analysis of Change in Market Value of Investments

	Market Value 31.03.08 £'000	Purchases at Cost £'000	Sales Proceeds £'000	Change in Market Value £'000	Market Value 31.03.09 £'000
<u>Fixed Interest Securities</u>					
- UK Public	74,077	43,520	-34,895	3,251	85,953
- UK quoted	84,683	27,152	-19,567	-14,197	78,071
- Overseas Public	1,669	2,940	-4,142	-467	0
- Overseas quoted	30,097	6,256	-9,936	-6,288	20,129
<u>Equities</u>					
- UK quoted	580,397	125,868	-186,004	-187,930	332,331
- Overseas quoted	571,946	289,847	-273,434	-149,309	439,050
<u>Pooled Investment Vehicles</u>					
Managed Funds					
- UK	34,045	132,646	-22,591	-20,014	124,086
- Overseas	160,459	44,329	-33,533	-41,749	129,506
Unit Trusts					
- UK Public/Fixed Interest	154,000	0	0	5,867	159,867
- UK	241,090	59,830	-53	-55,006	245,861
- Overseas	112,574	0	0	-27,763	84,811
- Property	24,802	0	0	-10,943	13,859
- Property Overseas	30,831	938	0	-8,284	23,485
Property - Freehold	201,087	0	0	-58,825	142,262
Derivatives					
- UK bond future contracts	35,393	161,276	-166,089	1,947	32,527
- Overseas bond future contracts	-3,455	334,675	-348,922	412	-17,290
- UK equity future contracts	216	226	-368	0	74
- Overseas equity future contracts	502	3,172	-3,110	23	587
	<u>2,334,413</u>	<u>1,232,675</u>	<u>-1,102,644</u>	<u>-569,275</u>	<u>1,895,169</u>
Cash					
- Cash Deposits	50,583			4,355	60,374
- Cash backing open future contracts	-32,075				-15,215
Other Investments					
- Debtors - Outstanding Sales	4,813				1,786
- Creditors - Outstanding Purchases	-4,984				-7,467
- Profit/Loss on Forward Currency	-362				2,849
- Investment Income Accruals	10,908				7,175
Total	<u>2,363,296</u>			<u>-564,920</u>	<u>1,944,671</u>

Liabilities of £29,890,000 have been netted off against the assets of £1,944,671,000. This relates to short derivative contracts of £22,423,000 and outstanding purchases of £7,467,000.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Pension Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £22,924,106 (2007/08 £21,804,360). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Pension Fund.

Notes to the Pension Fund Account

The following reflects the monetary and percentage split of the investments of the Fund at 31 March 2009 and previous year comparisons.

	2009		2008	
	£'000	%	£'000	%
Alliance Bernstein	176,131	9.1	258,938	11.0
Baillie Gifford	324,776	16.8	395,473	16.8
DTZ	182,262	9.4	257,408	10.9
GMO	129,506	6.7	160,459	6.8
Goldman Sachs	186,872	9.7	196,320	8.3
Henderson	8,128	0.4	11,147	0.5
Invesco	236,756	12.2	237,034	10.1
JP Morgan	27,264	1.4	0	0.0
MLIM (Transition)	0	0.0	1,402	0.1
Schroders	549,364	28.4	662,369	28.1
Société Générale	29	0	170,622	7.3
State Street Global Advisors	112,325	5.8	0	0
YFM	1,232	0.1	1577	0.1
	1,934,645	100.0	2,352,749	100.0

The investment manager totals exclude investment debtors and creditors.

Notes to the Pension Fund Account

8. Current Assets and Liabilities

	2009		2008	
	£'000		£'000	
Investment Liabilities				
Derivatives Contracts		22,423		30,758
Outstanding Purchases		7,467		4,984
Loss on forward currency		0		362
		<u>29,890</u>		<u>36,104</u>
Current Assets				
Contributions due from				
-Scheduled Bodies	11,389		9,807	
- Admitted Bodies	890	12,279	907	10,714
Other current assets		1,036		747
Cash		108,967		120,676
		<u>122,282</u>		<u>132,137</u>
Current Liabilities				
Unpaid Benefits		-4,016		-4,133
Other current liabilities		-2,555		-2,202
Total		<u>-6,571</u>		<u>-6,335</u>

The figures for the contributions due from Scheduled and Admitted Bodies for 2008 have been restated because £518k was included as Scheduled Body contributions rather than Admitted Body contributions.

9. Loss on Icelandic Investment

£1.104m represents the loss to the pension fund on cash investments in the Icelandic banks which collapsed in 2008.

Other notes to the Accounts

10. 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 AVC provides secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. The sum deducted from KCC members and paid over to the AVC providers was: £878,712 (£812,503 in 2007-08). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Value at 1 April	2,777	2,292	2,002	2,118	1,483	1,594
Income						
Contributions Received	665	425	192	178	13	18
Transfer Values Received	149	90	15	11	0	
Interest & bonuses	107	124	0	0	-8	47
Total	921	639	207	189	5	65
Expenditure						
Retirement Benefits Paid	-316	-130	-296	-257	-270	-168
Transfer Values Paid	-24	-6	-6	-44	-21	-8
Refund of Contributions	-33	-8	0		0	0
Total	-373	-144	-302	-301	-291	-176
Change in Market Value	-60	-10	-321	-4	-2	0
Value at 31 March	3,265	2,777	1,586	2,002	1,195	1,483

Notes to the Pension Fund Account

11. Related Party Transactions

	2009 £'000	2008 £'000
Transactions between the KCC Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring and other services.	2,536	2,442
Outstanding transactions between Scheduled and Admitted bodies participating in the Pension Fund, in respect of employee and employer contributions payable by 19 April 2009.	143	616

Included within the employer related investment figure of £143,301 are balances due at the year end from the following related parties: Cranbrook School £22,539; Robert Napier School £20,913; Angley School £20,611; Mascall's School £15,760; Active Life £15,156; Swanley Town Council £12,477; Fort Pitt Grammar School £11,715

Financial Reporting Standard 8 requires that related party transactions are disclosed where material. The remaining items which make up the £143,301 balance, are individually below £10,000 and relate to a number of scheduled and admitted bodies. These have not been listed individually.

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

12. Investment Commitments

As at 31 March 2009 the Pension Fund has a future commitment to invest in the following Funds:

Fund	Total Commitment	Invested	Outstanding
YFM Private Equity	£4m	£2.1m	£1.9m
Aurora European Property Fund	£33.6m (36.3m euros)	£32.2m (34.7m euros)	£1.4m (1.6m euros)
JP Morgan Forward Currency			
Dollar Hedge	\$20m (£11.75m)	0	\$20m (£11.75m)

13. Stock Lending

In March 2009, the Pension Fund suspended the stock lending programme with the fund's Custodian JP Morgan. No new loans have been made since this date. The remaining open loans will continue to be serviced by JP Morgan until their natural closure. The amount of securities on loan at year-end analysed by asset class and a description of the collateral is set out in the table below.

Loan Type	Market Value £000	Collateral Value £000	Collateral Type
Corporate Bonds	2,330	2,435	Cash
Equities	5,468	6,196	Gilts
Equities	110	118	Cash
Equities	23,574	25,249	Euro Governments
Equities	514	549	US Treasuries
Treasury	15,251	15,814	Gilts
Total	47,247	50,361	

14. Derivative Contracts

Futures

Contract	Manager	Expiration	Fair Value	
			UK £'000's	Overseas £000's
UK				
LIF GILT BOND	Goldman Sachs	June 2009	32,527	
US				
S&P 500 Future	Alliance Bernstein	June 2009	555	
US TREASURY NOTES	Goldman Sachs	June 2009		2,251
US TREASURY NOTES (SHORT)	Goldman Sachs	June 2009		-8,983
JAPAN				
JGB TREASURY BOND (SHORT)	Goldman Sachs	June 2009		-7,807
EUROPE				
EURX BUND	Goldman Sachs	June 2009		2,882
EURX BOND (SHORT)	Goldman Sachs	June 2009		-5,633
			33,082	-17,290

The Alliance Bernstein future is held to maturity as a hedge against their general shareholding positions.

The Goldman Sachs future contracts are bought and sold regularly, and are used to hedge their general positions and also to generate additional profit.

The S&P future is an Equity Future which appears in Note 7 together with the margin account value of £32,000 (total £587,000).

Forward FX

Contract	Manager	Expiration	Profit on contract £000
US\$ Forward currency	JP Morgan	June 2009	2,544

The Forward FX was originally purchased to hedge the dollar exposure of an anticipated \$60m investment in a Distressed Asset Fund.

The Distressed Asset Fund was wound up in December 2008 and all investments made were returned.

At the 31.3.2009 there was still a commitment to the Forward FX of \$20m (£11.75m), but this has since been closed out.

Scheduled Bodies**Local Authority and District Councils**

Ashford Borough Council

Canterbury City Council

Dartford Borough Council

Dover District Council

Gravesham Borough Council

Kent County Council

Maidstone Borough Council

Medway Council

Sevenoaks District Council

Shepway District Council

Swale Borough Council

Thanet District Council

Tonbridge and Malling Borough Council

Tunbridge Wells Borough Council

Schools

Allington Primary School

All Souls County Primary School

Angley School

Archbishops CE School

Aylesford School

Barton Court Grammar School

Bennett Memorial School

Borough Green Primary School

Bradbourne School

Brockhill Park School

Canterbury Campus

Charles Dickens High School

Chatham Grammar School for Girls

Chatham House Grammar School for Boys

Chaucer Technology School

Cheyne Middle School

Cranbrook School

Dane Court Grammar School

Dartford Grammar School for Boys

Dartford Grammar School for Girls

Ditton Infant School

Ditton CE Junior School

Dover Grammar School for Boys

Folkestone School for Girls

Fulston Manor School, Sittingbourne

Gravesend Grammar School for Boys

Gravesend Grammar School for Girls

Greatstone County Primary School

Halfway Houses County Primary School

Harcourt County Primary School

Hayesbrook High School for Boys

Herne Bay High School

Herne Bay Junior School

Hillview School for Girls

Holy Family RC Primary

Holy Trinity County Primary School, Dartford

Holy Trinity County Primary School, Gravesend

Homewood School, Tenterden

Meopham School

Minster College

New Brompton College

Newington Junior School

Northfleet School for Boys

Oakwood Park Grammar School

Our Lady of Hartley RC Primary School

Park Farm County Primary School

Pent Valley Secondary School

Queen Elizabeth's Grammar School

Rainham Mark Grammar School

Robert Napier School

Rochester Grammar School for Girls

Roseacre Junior School

Sandwich High School

Simon Langton Grammar School for Boys

Sir Roger Manwood School

Skinners School

Snodland County Primary School

St Anselm's RC Comprehensive School

St Bartholomew County Primary School

St Botolphs County Primary School

St Edmund of Canterbury Comprehensive

St Francis County Primary School

St George's School, Broadstairs

St George's School, Gravesend

St Gregory's Catholic Comprehensive

St John Fisher RC School

St John RC Comprehensive

St Joseph RC Primary School

St Simon Stock School

Stella Maris RC Primary School

Sutton at Hone County Primary School

Thamesview School

Thomas Aveling School

Tonbridge Grammar School for Girls

Tunbridge Wells High School

Westlands School

Horton Kirby County Primary School
Howard School
Hugh Christie School
Larkfield Brookfield Junior School
Malling School
Maplesden Noakes School, Maidstone
Mascalls 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
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
Eynsford Parish Council
Eythorne Parish Council
Farningham Parish Council
Faversham Town Council
Folkestone Town Council
Great Mongeham Parish Council
Hartley Parish Council
Hawkhurst Parish Council
Hawkinge 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 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
Margate Charter Trustees
Minster on Sea Parish Council
Minster Parish Council
Otford Parish Council
Pembury 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
West Kingsdown Parish Council
Westerham Parish Council
Woodnesborough Parish Council
Yalding Parish Council

Academies

Cornwallis Academy
Folkestone Academy
Leigh Technology Academy
The Marlowe Academy

Longfield Academy
Marsh Academy
New Line Learning Academy
Spires Academy

Agency

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

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 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.

Capital expenditure funded from revenue under statute

Capital expenditure funded from revenue under statute includes 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 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.

Non Delegated

Spend on Education Services which is not delegated to schools.

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.

This page is intentionally left blank

By: Chief Executive

To: Governance and Audit Committee – 30th June 2009

Subject: OMBUDSMAN COMPLAINTS

Accountable Officer: Corporate Access to Information Coordinator

Classification: Unrestricted

Summary and Recommendations: To report:-
the latest position on complaints to the Local Government Ombudsman against the County Council;

FOR INFORMATION

1. New Local Government Ombudsman Complaints since 1st October 2008

(1) In the six months from 1st October 2008 to 31st March 2009, 30 new complaints about the County Council were made to the Local Government Ombudsman. This excludes the 10 additional complaints which were classified by the Ombudsman as “premature” (i.e. the Ombudsman considered that the Council had not yet had sufficient opportunity to consider them first) and which will not therefore be included in the annual statistics on complaints when it is published by the Ombudsman shortly. The latest position in the Ombudsman’s consideration of these 30 new complaints and brief details of them on a Directorate by Directorate basis are set out in Tables A and B respectively:-

Table A

Total new complaints 1/10/08 – 31/3/09	30
<i>of which:-</i>	
KCC investigating/collating information	0
Ombudsman’s decision awaited	10
Complaint closed - local settlement	5
Complaint closed - Ombudsman’s discretion	8
Complaint closed - outside Ombudsman’s jurisdiction	4
Complaint closed - no evidence of maladministration	3

Table B

Adult Social Services	1
Chief Executives	3
<i>of which:-</i>	
Commercial Services	2
Miscellaneous/policy	1
Children, Families and Education	13
<i>of which:-</i>	
School Transport	1

Special Educational Needs	1	
Children's Social Services	9	
Other	2	
Communities		1
<i>of which:-</i>		
Trading Standards	1	
Environment and Regeneration		12
<i>of which:-</i>		
Kent Highway Services	8	
Planning Applications	1	
Environment & Waste/Public Rights of Way	3	

2. Current position on existing cases received in the financial year 2007/2008 and still under investigation by the Ombudsman

The Ombudsman has now issued a decision on all eleven cases that were received in 2007/2008 that were still outstanding at the time of my last report (December 2008).

Complaint 07/A/03721 – Special Educational Needs

A summary of this complaint as the Ombudsman understands it is that the Council

- (i) Delayed unreasonably in assessing complainant's stepson and issuing a Statement of Special Educational Needs
- (ii) Unreasonably asked complainants to visit several schools within the county which were not suitable for their step-son's needs.
- (iii) Unreasonably refused to consider a residential placement until just before the SENDist hearing was about to take place and
- (iv) Failed to provide suitable education while stepson was excluded from his mainstream school

The Ombudsman's proposals for settlement, which the Council contested is that the Council pay £39,395 compensation to the stepson for the education he missed for half a term and £5,300 compensation to the complainant to cover some of his legal fees. The Council has agreed to pay £6,868 for the loss of day provision, £750 for legal fees and £1000 to complainant for time and trouble in pursuing complaint. Having considered the Council's arguments, the Ombudsman accepted a local settlement of £13,962 which was duly paid to the complainant.

Complaints 07/A/15602, 16249, 16250, 16251 & 16435 – Failure to keep adequate records re the highway status of Longfield Place

A summary of these complaints from residents as the Ombudsman understands it is that there is an administrative fault in the Council's failure to keep adequate records of the highway status of Longfield Place, Maidstone and in its inconsistent or inaccurate advice to Maidstone Borough Council and others about that matter. This has resulted in development of land opposite the complainants residences which a ransom strip that they purchased was supposed to prevent. Following an inspection of the Council's records, the Ombudsman recommended that the Council pay each complainant £500 compensation to settle the matter locally as the Ombudsman recognised that the complainants could have pursued the land issues through the courts for a definitive position.

Complaint 07/A/12559 – Refusal to address traffic issues

A summary of this complaint as the Ombudsman understands it is that the Council has failed to consider properly alternative measures to address the problem of speeding traffic on Church Road, Eastchurch. Following their investigation, the Ombudsman considered there was no evidence of maladministration.

Complaint 07/A/14391 – Refusal to address traffic issues

A summary of this complaint as the Ombudsman understands it is that the Council has failed to take adequate steps to address the issue of speeding cars on Charing Hill. Following their investigation, the Ombudsman considered there was no evidence of maladministration.

Complaints 07/A/16114 & 16081 – Removal of specialist services without notice/consultation.

A summary of this joint complaint as the Ombudsman understands it is that the Council is at fault in that

(a) it removed specialist services provided by organisation KIDS to the complainants' children in January 2007 without reasonable notice or consultation and

(b) it has failed to make adequate or appropriate alternative provision since January 2007.

The Ombudsman's proposals for local settlement, which the Council accepted, are that the Council pay £1250 compensation to one complainant and £2000 to the other.

Complaint 07/A/07845 – Unfair action re trees & hedges

A summary of this complaint as the Ombudsman understands it is that the Council has taken unnecessary and unfair action against complainant in respect of trees and a hedge on her property. Following their investigation, the Ombudsman considered there was no evidence of maladministration.

3. Current position on existing cases received last financial year (1st April 2008 to 31st March 2009) and still under investigation by the Ombudsman

Complaint 08 007 079 – Failure to provide full-time education following exclusion

A summary of this complaint as the Ombudsman understands it is that the Council has failed to provide the complainant's son with full time education since he was excluded in November 2007. It has also failed to provide the support to complainant's son which is indicated in his statement of Special Educational Needs. This has caused a financial loss for the complainant who runs a small business but is unable to work when son is at home.

The Ombudsman has suggested that the Council pay £4000 in compensation for loss of educational provision and a further £1000 to the complainant for injustice and loss of business. The Council are still deliberating this local settlement proposal

Complaint 08 011 660 – Maintenance of Customer Care Plan

A summary of this complaint as the Ombudsman understands it is that the Council has failed in its duty of care towards complainant. In particular, it has not provided him with the care services specified in his Care Plan since July 2007, or appointed a replacement Care Manager for him. Nor has the Council responded appropriately to complainant's enquiries and complaints about this lack of provision and other related issues.

This is actually an NHS Trust matter and the Ombudsman has been made aware.

Complaint 08 005 202 – Review of family's needs

A summary of this complaint as the Ombudsman understands it is that the Council has failed to fulfil its statutory duty to carry out reviews of complainant's family's needs even when recommended to do so by a Complaints Review Panel and that this failing has resulted in complainant's family not receiving the level of support it requires.

Following investigation, the Ombudsman has issued a report indicating that the Council is guilty of maladministration causing injustice and has indicated that the Council should pay the complainant £12,500 in recognition of missed direct payments and time and trouble in pursuing complaint.

Complaint 08 013 106 – Dispute with B&Q

A summary of this complaint as the Ombudsman understands it is that there is an administrative fault in the Council's willingness to allow B&Q to sell as new products which have been returned by customers and the way in which the Council considered the complainant's complaint about this issue.

Following their investigations, the Ombudsman has suggested the Council issue a "modest apology" to conclude matters but has asked to delay sending this until a final decision has been made.

Complaint 08 012 031 – InsideOut, Personal Financial Losses, Approved Contractors List and Tendering Process

A summary of this complaint as the Ombudsman understands it is that the Council has attempted to remove the complainant's company from the Approved List on two occasions without valid reason; has set up its own company, subsidised by Kent taxpayers and not subject to the same costs and overheads, and with which the complainant's company cannot reasonably compete; has attempted to block the tendering opportunities available to the complainant's company; and has interfered with the tendering process when the complainant's company has been awarded the contract.

The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations

Complaint 08 008 346 – Children's' social services

A summary of this complaint as the Ombudsman understands it is that the Council has failed to properly consider complaints regarding his concerns about his children.

The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations

Complaint 08 017 038 – Development of North Barracks at Deal

A summary of this complaint as the Ombudsman understands it is that both the District & County Councils have failed to take action on various issues (road condition, adoption of roads, sewerage, landscaping, yellow lines, access etc) raised by residents who have purchased properties whilst the development of this site is ongoing.

The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations

Complaint 08 017 112 – Traffic problems at A228 Mereworth

A summary of this complaint as the Ombudsman understands it is that Kent Highways Services' transport policy does not take account of the effect on the complainants and their neighbouring residents of the impact of heavy traffic using the A228 which bisects their road.

They are also concerned about lack of visibility at the exit from the road on to the A228; lack of safe provision for pedestrians crossing the A228; and lack of routine and planned maintenance. The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations.

Complaint 08 017 678 – Special educational needs

A summary of this complaint as the Ombudsman understands it is that the Council delayed unreasonably in making appropriate special educational needs provision for complainant's son with the consequence that son left school without GCSEs.

The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations

Complaint 08 019 073 – Assisted home-to-school transport

A summary of this complaint as the Ombudsman understands it is that there was administrative fault in the Council's consideration of the complainant's application and appeal for free transport for his son, between his home, and Sir Roger Manwood's Grammar School, Sandwich.

The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations

Complaint 08 013 687 – Claim to have route recorded as Byway Open to all Traffic

A summary of this complaint as the Ombudsman understands it is that that the Council has failed to properly consider complainant's request for a route between Foxes Cross Road and Pean Hill, Whitstable to be recognised as a byway open to all traffic and recorded as such on the Council's definitive map. Complainant has also complained about the Council's decisions on her claims made in 1991 and 1997 and the Council's delay in considering her requests. The Council has provided the information requested by the Ombudsman to the Ombudsman and is awaiting the outcome of the Ombudsman's investigations

3. Further Information

Further information about any of the complaints or other matters mentioned in this report can be obtained from the Corporate Access to Information Coordinator.

Caroline Dodge
Corporate Access to Information Coordinator
Ext 1652

This page is intentionally left blank

To: Governance & Audit Committee – 30 June 2009

From: Richard Long, Chairman of Governance & Audit Committee
Clive Bainbridge, Director of Community Safety & Regulatory Services

Subject: Annual report on ‘surveillance’ activities carried out by KCC between Jan – December 2008

Classification: Unrestricted

Summary This report outlines the work undertaken in 2008 by KCC Officers on surveillance and other activities governed by the Regulation of Investigatory Powers Act 2000 (RIPA).

1.0 Background

1.1 Cabinet decision number xxxxxxx, taken on 12 January 2009, approved the County Council’s Policy and Protocol on Surveillance, including the Acquisition of Communications data. The document sets out the extent of KCC’s powers in relation to surveillance and details the circumstances in which those powers can be used. This is a sensitive area, with considerable public interest and the County Council wishes to be as open and transparent as possible to assure the public that these powers are used only in a ‘lawful, necessary and proportionate’ manner.

1.2 To achieve maximum transparency and ensure that the County Council maintains public confidence Section 14.3 of the Policy and Protocol on Surveillance requires that:

‘At the end of each year a report shall be submitted by the Director of Community Safety and Regulatory Services to the appropriate Audit Committee, outlining the work carried out in the preceding year by KCC falling within the remit of RIPA.’

2.0 What this report covers

2.1 There are three types of activity where authority is required to be granted to individual officers to carry out a specialist function within the remit of RIPA. These are as follows:

- Acquisition of Communications Data
- Covert Surveillance
- Covert Human Intelligence Source (CHIS)

Each of the above is defined in detail within the Policy document but in simplified form can be described as follows:

acquisition of communications data – obtaining from a communications service provider names, addresses, telephone billing records and traffic data but not the content of any communication

covert surveillance – intended to be carried out without the person knowing and in such a way that it is likely that private information will be obtained about a person (not necessarily the person under surveillance). Local authorities are only permitted to carry out certain types of covert surveillance and for example cannot carry out surveillance within or into private homes.

covert human intelligence source (CHIS) – the most common form is an officer developing a relationship with an individual without disclosing that it is being done on behalf of the County Council for the purpose of an investigation. In most cases this would be an officer acting as a potential customer and talking to a trader about the goods / services being offered for sale. Alternatively, a theoretical and rare occurrence would be the use of an ‘informant’ working on behalf of an officer of the Council.

- 2.2 In each of the above scenarios an officer is required to obtain authorisation from a senior officer before undertaking the activity. This decision is logged in detail, with the senior officer considering the lawfulness, necessity and proportionality of the activity proposed and then completing and signing an authorisation document, which is then held on a central file. There is one central file for KCC, held by the Director of Community Safety & Regulatory Services, which is available for inspection by the Office of the Surveillance Commissioners.

3.0 RIPA work carried out in the year 2008/09

- 3.1 The appendix to this report gives the general purpose or reason for which authority was granted under each of the three headings. It is not possible to give further details as this may breach confidentiality legislation, such as the Enterprise Act, offend the subjudice rules, interfere with the proper investigation of potential offenders, or disclose other operational information which could hinder past, current or future activities, investigatory techniques or investigations.
- 3.2 It can be seen from the information in the appendix that the only activities covered by RIPA, across the whole of KCC, are carried out within two services, Environmental Crime / fly tipping (Environment, Highways and Waste Directorate) and Trading Standards (Communities Directorate). Constant vigilance is required to ensure that officers do not unknowingly engage in activities which might cross into RIPA territory. Periodically we have conducted an audit of all senior managers who are required to provide a positive documented response confirming the position, within their service / unit. This is an important check and the Inspector commended our approach.
- 3.3 The report covers the year 2008 as all of the many Freedom of Information requests about this subject have asked for a return by calendar, rather than financial year. However, the report to this Committee could be changed to any other reasonable period if requested.

4.0 The Interception of Communications Commissioner’s Office

- 4.1 There are two separate national bodies which carry out audits to ascertain standards within those enforcement bodies which carry out covert surveillance and access communications data. These are respectively the Office of the Surveillance Commissioner (OSC) and the Interception of Communications Commissioner’s Office (ICCO).
- 4.2 The last inspection by the ICCO was 5 March 2007 which was concluded with a letter from the Chief Inspector at the ICCO stating “..in view of the limited use which the Council is making of its powers to acquire communications data and in the light of the fact that it is now able to achieve a good level of compliance with the legislation it would not be our intention to carry out another inspection for at least 18 months.” The reference to limited use refers to the fact that we are principally only using the powers to obtain details of the

subscriber to a telephone number. In view of the above letter I have not provided any further detail but when the next audit is carried out the results will be brought to this Committee.

5.0 Office of Surveillance Commissioner

- 5.1 The last inspection by the OSC was carried out on 12 February 2009, the report was received on 3 March and the Council responded in full on 28 May. The report has RESTRICTED status and although it is not, therefore, a document which can be publicly reproduced I have provided commentary (see para 6. below) on the Council's response to the report's recommendations.
- 5.2 To explain the rationale behind the OSC reports not being made public I have provided a direct quote, by Sir Christopher Rose, Chief Surveillance Commissioner, as a foreword to his annual report to Parliament.

During this reporting period there has been a significant increase in the number of Freedom of Information requests from the media. It is not usually an area on which I comment but I report my concern. I never disclose the contents of my reports to anyone other than the relevant Chief Constable or Chief Executive. But requests to the recipients of my reports have been aimed at acquiring my reports, my correspondence to and from chief officers and the action plans related to the recommendations that I make. Responses by public authorities have been inconsistent and there is the perception that a decision by one authority to respond positively may lead the requestor to view negatively those which do not disclose the information requested.

When asked for guidance I have responded that it is in the public interest to demonstrate that covert surveillance conducted on behalf of the State is properly regulated. This Annual Report is designed to provide that assurance. Seeking assurance of regulation is one thing, but attempting to acquire, under the auspices of freedom of information, operational details or knowledge of covert techniques is another. Redaction of these details from my reports could be misconstrued as secrecy or might adversely affect context and meaning.

I favour the advice provided by the Information Commissioner (Guidance Note 25). I regard myself as a 'qualified person' as defined by Section 36 of the Freedom of Information Act and it is my 'reasonable opinion' that for public authorities to disclose the contents of my reports would prejudice the effective conduct of public affairs. The risk of disclosure might tempt some individuals to withhold the full details of covert activities from me or my representatives; it might inhibit my ability to provide the evidence that is necessary to support my recommendations and it might inhibit the free and frank exchange of views and provision of advice that is currently the hallmark of the relationship which my Office enjoys with public authorities.

6.0 Council's response to the report

- 6.1 To date we have not received any comments about the response but as the Council essentially accepted and have addressed all of the recommendations, I am expecting a positive reply.
- 6.2 Although the audit found six areas for improvement, as outlined below, the Director of Law and Governance and the Director of Community Safety and Regulatory Services,

(the Senior Officers who met with the Inspector during the audit) are satisfied that the Council's policies and procedures were fundamentally robust and protected both the Council and the public.

- 6.1 Policy documents - the Inspector advised that the Council's single Policy and Protocol document should be divided into three separate areas covering Directed Surveillance, Covert Human Intelligence Sources and Communications data. The current single document is now in the process of being split into three discrete documents which will increase the volume of paperwork but should provide greater clarity. An example of this is the section dealing with CCTV which is not normally within the scope of RIPA but could fall within scope if there is an intention to use the CCTV for enforcement purposes as part of a specific operation or investigation. Amendments to the policy will draw the attention of staff who control CCTV to their responsibilities and the need to ensure that any such authorisations have been correctly approved.
- 6.2 Confidential material - although the Council has never authorised any directed surveillance where 'confidential material' might be disclosed (for example information relating to confidential and sensitive matters between a doctor / lawyer and their client) there is a need to ensure that if, during surveillance, the possibility of this could arise then the authorisation of that surveillance should be carried out at the highest level by the Chief Executive or his deputy. The policy will therefore be amended to state that Chief Executive and the Chief Officers who deputise for him will each be named as authorising officers in these circumstances. However, in view of the training requirements they will be supported and assisted by one of the existing suitably experienced Authorising Officers before any decision is made to sign an authorisation.
- 6.3 Covert Human Intelligence Sources (CHIS) - the Council has agreed to produce a documented risk assessment scheme for all CHIS authorisations. These are mainly test purchasing scenarios (as described in 2.1 above) and normally only involve use of the Council's own officers.
- 6.4 Central records - all records of authorisations for the whole of the authority are kept centrally, as required, under the control of the Director of Community Safety & Regulatory Services. The records for RIPA purposes are currently kept in the same system along with other records of instances where human rights could potentially be subject to interference, such as forfeiture, seizures, prohibitions under a variety of legislation. Following the Inspectors recommendation these records will be separated. In addition the central record of authorisations will consist of a single sequential database with numbers issued on request and the basic detail logged at the time of the request. This will mean that the central database operates in real time as a record of authorisations issued or to be issued.
- 6.5 Training - the Inspector felt that further training for authorising officers and officers who apply for authorisations would be helpful. This training was already planned and has largely now been completed although RIPA awareness training for Directorate senior managers has still to be delivered.
- 6.6 Quality of authorisations – the inspector felt that some authorisations should include more information and it should be apparent from reading each authorisation that the authorising officer had given it individual thought and consideration. The quality of authorisations has been reviewed and officers are now providing more complete declarations.

7.0 Recommendation

7.1 Governance and Audit Committee is asked to:

- (a) note this report and approve the manner in which KCC's formal Policy and Protocol on Surveillance (including the Acquisition of Communications data) has been used and followed during the previous year, including the type of criminal offences where surveillance has been used or communications data has been requested
- (b) note and approve the use of a periodic audit across KCC senior managers to ascertain activities which may fall within the ambit of RIPA

Clive Bainbridge
Director of Community Safety and Regulatory Services
01622 221014

Appendix – KCC – Use of RIPA Powers

This page is intentionally left blank

Kent County Council – Use of RIPA Powers

(All relate to Trading Standards except for some surveillance data concerning the Environmental Crime Team in Waste Management as detailed.)

ACQUISITION OF COMMUNICATIONS DATA

2000 – 4 records held

- Re. false claims of CORGI registration (3 enquiries)
- Re. supply of unclassified video recording

2001 – 11 records held

- Re: supply & possession of counterfeit DVDs (2 enquiries)
- Re: supply & possession of counterfeit computer games
- Re: unauthorised use of trademark
- Re: false claim of trade registration / approval
- Re: sale of potentially unsafe car
- Re. sale of car with false trade description (3)
- Re. supply of counterfeit software
- Re. misleading price indication

2002 – 38 records held

- Re. failure to disclose “trade” in advertisement (25 enquiries)
- Re. offering to supply unsafe furniture & electrical goods
- Re. false claim of CORGI registration
- Re. supply of counterfeit games and software
- Re: supply & possession of counterfeit music / films (3 enquiries)
- Re: roadside car sales
- Re: sale of dangerous car (2 enquiries)
- Re: supply & possession of counterfeit clothing (3 enquiries)
- Re: supply & possession of counterfeit washing powder

2003 – 10 records held

- Re. misleading price indication
- Re. misdescribed car, non declaration of trade, not KCC Act registered
- Roadside car sales, not declaring trade or KCC Act registered (5 enquiries)
- Re: misleading prices / description of services
- Re: no KCC Act registration
- Re: supply & possession of counterfeit clothing

2004 - 9 records held

- Re. supply & possession of counterfeit clothes & bags (3 enquiries).
- Re. supply & possession of counterfeit DVD's.
- Re. applying a false trade description (mileage) to vehicles (3 enquiries).
- Re. roadside car seller not declaring trade (2 enquiries).

2005 – 5 records held

- Re. fly-tipper identification (2 enquiries).
- Re. possession & supply of counterfeit DVD's.
- Re. identification of suspected car clocker.
- Re. buying & selling cars without declaring trade.

2006 – 11 records held

- Re. buying & selling cars without declaring trade.
- Re. supply & possession of clothing bearing a false trade mark.
- Re. storing petroleum without a licence.
- Re. counterfeit trainers imported into the UK.
- Re. selling in bulk of counterfeit goods.
- Re. complaints of work not carried out or finished.
- Re. logo on company vehicle not approved by relevant trade association.
- Re. display & sale of electrical items breaching safety regulations.
- Re. advertisement of clocked car (2 enquiries).
- Re. illegal landing of a dog.

2007 – 12 records held

- Re. cold calling and no cancellation notice (4 incidents).
- Re. cold calling, no cancellation notice and potential fraud.
- Re. cold calling, no cancellation notice, false claims and misleading prices.
- Re. further request relating to above.
- Re. cold calling, no cancellation notice and false description.
- Re. trading in counterfeit DVDs.
- Re. illegal use of a trade mark in connection with building work.
- Re. hallmarking, false trade mark and false description offences re. jewellery.
- Re. false descriptions in relation to motor vehicles and use of false identities.

2008 – 38 records held (*All subscriber checks except where detailed*)

- Re. roadside car seller not declaring trade and unsafe.
- Re. roadside car seller not declaring trade (2 events).
- Re. builder claiming KCC approval and other false descriptions.
- Re. cold calling, block paving – no cancellation notice & possible fraud (2 events).
- Re. cold calling, driveway work – no cancellation notice.
- Re. cold calling, building work – no cancellation notice.

- Re. cold calling, paving work – no cancellation notice and misdescriptions (2 events).
- Re. unsolicited carpet sales (2) – cash taken, carpets not fitted – theft.
- Re. counterfeit Tiffany jewellery sold at boot fair.
- Re. counterfeit clothing on Ebay – 3 linked enquiries.
- Re. counterfeit DVDs on Ebay with threats to buyer.
- Re. non-compliant upholstered furniture under safety regulations.
- Re. cold calling, carrying out work with no cancellation notices + various possible fraud/misleading statement offences (14 events).
- Re. cold calling, carrying out work with no cancellation notice – **(request for incoming call data)**.
- Re. the possession or supply of counterfeit goods (2 events).
- Re. possession or supply of counterfeit goods and possible conspiracy between traders (3 events) – **(1 request for outgoing call data, 2 requests for incoming/outgoing call data)**.
- Re. website for tickets & offences under Consumer Protection from Unfair Trading Practices Regulations - **(subscriber for e mail address)**.

COVERT SURVEILLANCE

2000 – 3 records held

- Re: supply & possession of counterfeit clothing
- Re: supply & possession of counterfeit music (2 events)

2001 – 8 records held

- Re. Use of CORGI logo when not a current member (3 events)
- Identification of trader re. problems with cancellation rights (timeshare)
- Photograph hotel sign falsely claiming SEETB membership.
- Re: supply & possession of counterfeit music
- Re: supply & possession of counterfeit vehicle ID tags
- Re: illegal disposal of animal by products

2002 – 2 records held

- Re. supply of counterfeit games and software

2003 – 48 records held

- Observation of attempted alcohol purchase by underage person (26 events)
- Re. roadside car seller not declaring “trade” & not KCC Act registered
- Observation and attempt test purchase from counterfeit DVD seller (2 events)
- Re. displaying logos when not a member or registered with organisation (2 events)

- Establishing movements of suspected manufacturer of counterfeit software
- Observing/photographing vehicle bearing false trade logos
- Gathering evidence re. incorrect property rating
- Gathering evidence re. suspended chiropractor practising
- Photographing incorrect credit adverts and unlicensed trader (consumer credit)
- Ascertain if livestock are being transported to premises re. records/labelling offences
- Observation of suspected counterfeit DVD/CD seller
- Use of existing CCTV facilities to observe seller of counterfeit films and music CDs
- Observation of suspected counterfeiter's address re. vehicle i.d.
- Obtain photographs of suspected seller of counterfeit goods
- Re: sale of potentially unsafe car
- Re: transportation of animal by products
- Re: under age sale test purchase (3 enquiries)
- Re: misleading prices / description of services (2 enquiries)

2004 – 16 records held

- Re. displaying an association logo when not a current member.
- Re. advertising credit when not in possession of a Consumer Credit Licence.
- Re. logo on company vehicle not approved by relevant trade association.
- Observation of counterfeit DVD seller at bootfair (5 events).
- Establish identity of fly-tippers and provide evidence of offending.
- Re. false or misleading statements as to services provided.
- Surveillance of counterfeit DVD seller travelling in vehicle.
- Observation of premises suspected of selling alcohol to underage persons.
- Surveillance re. vehicles advertised by suspected trader.
- Observation of sale of alcohol to underage test purchaser (2 events.)
- Identification of cold caller suspected of using fraudulent tactics.

2005 – 15 records held

- Observation of property used to distribute DVDs.
- Assess layout of shop selling counterfeit DVDs (3 events).
- Establish id of fly-tippers and provide evidence of offending (10 events).
- Identification of persons involved with stallholders selling counterfeit goods.

2006 – 28 records held

- Gather evidence of offering for sale of cars in breach of suspension notice.
- Gather evidence re. suspected breach of Consumer Credit Regulations.
- Surveillance of counterfeit DVD seller at bootfair.
- Identification of cold callers (2 incidents).

- Surveillance of trader's vehicle for evidence of false trade membership association claims.
- Surveillance of stallholders selling counterfeit goods (2 events).
- Determine whether counterfeit items being sold from shops.
- Surveillance of persons touting leaflets re. misleading price indications.
- Surveillance of persons suspected of manufacture & supply of counterfeit DVD's and CD's.
- Surveillance of suspected seller of counterfeit goods (2 events).
- Observation re. store trading in counterfeit and secondhand goods.
- ***Establish identity of fly-tippers and provide evidence of offending (14 events) (All carried out by the Environmental Crime team in Waste Management).***

2007 – 18 records held

- Surveillance of warehouse counterfeit toys.
- Observation of unloading/loading of counterfeit goods.
- Surveillance of suspected seller of counterfeit goods.
- Identification targets for possible seizures of counterfeit goods.
- Surveillance of vehicle involved in cold call tarmac work (2 events).
- Identification of roadside car seller.
- Surveillance of person suspected of breaching a court order.
- ***Establish identity of fly-tippers and provide evidence of offending (10 events) (All carried out by the Environmental Crime team in Waste Management).***
-

2008 –23 records held

- ***Establish identity of fly-tippers and provide evidence of offending (14 events)(All carried out by the Environmental Crime team in Waste Management).***
- Serial cold caller with previous offences followed to residential property and arrested.
- Establish identity of roadside car sellers suspected of being traders (3 events)
- Observation in relation to underage sales test purchase activity (2 events).
- Surveillance in relation to possession/supply of counterfeit goods (2events).
- Surveillance in relation to unauthorised use of CORGI logo.

Covert Human Intelligence Source ('CHIS')

2000 – No records held

2001 – 5 records held

- Re: sale of potentially unsafe car
- Re: supply & possession of counterfeit DVDs

- Establish whether finance being offered by unlicensed broker
- Test purchase of counterfeit DVDs
- Engagement re. establishing the supply of unsafe furniture

2002 – 13 records held

- Re: sale of potentially unsafe car (2 enquiries)
- Re: sale of potentially unsafe furniture (2 enquiries)
- Re: supply & possession of counterfeit DVDs
- Re: car servicing campaign (2 enquiries)
- Discussion to establish if unsafe furniture being sold
- Test purchase of second hand jewellery from unregistered trader
- Establish supplier of counterfeit products
- Discussion re counterfeiter
- Discussion of mileage on suspected clocked car
- Visit premises to establish whether a broker trades unlicensed

2003 – 11 records held

- Re: KCC Act registration (2 enquiries)
- Re: unauthorised provision of credit
- Re: unauthorised storage of fireworks
- Re: misleading prices / description of services
- Re: hiring of potentially unsafe vehicles
- Re. determining destination of consignment of counterfeit goods
- Discussion re. purchasing a potentially unsafe vehicle
- Gain info as to whether false origin applied to eggs
- Gain info on trader suspected of not being KCC Act registered
- Gain info re. possession and manufacture of counterfeit CDs & DVDs.

2004 – 4 records held

- Test purchase of fireworks from rear of motor vehicle.
- Identification of roadside car seller and attempt to establish trade or business (3 events).

2005 – 8 records held

- Discussion and purchase re. counterfeit goods (3 events).
- Set up an appointment with counterfeit handbag seller.
- Discussions re. offered holiday prices (3 events).
- Discussion with car trader posing as an individual.

2006 – 16 records held

- Offer to purchase vehicle previously declared as unsafe.

- Attempted purchase of fireworks outside of prescribed times.
- Establish whether fireworks are for sale and outside prescribed periods in an unregistered premise.
- Discussion and purchase re. counterfeit goods.
- Visit premises and act as a consumer re. misleading price indications and warranty issues on cars.
- Attempted purchase re. falsified service histories.
- Attempted purchase re. misleading prices on leaflets.
- Discussion of mileage on suspected clocked car.
- Attempted test sales at second hand stores (4 events).
- Attempted purchase of unsafe products.
- Attempted purchase of copyright protected DVD's on line.
- Engagement with suspected bulk seller of counterfeit goods.
- Engagement with car seller believed to be trader.
- Viewing and discussion with seller of suspected clocked car.

2007 – 1 record held

- Engagement with roadside car seller believed to be trader.

2008 – 8 records held

- Engagement with roadside car seller believed to be trader (6 events).
- Re. attempted test purchase of suspected counterfeit makeup.
- Re. suspected breach of Package Travel Regulations.

31/12/08

This page is intentionally left blank

By: Lynda McMullan - Director of Finance
 To: Governance and Audit Committee – 30 June 2009
 Subject: **STRATEGIC RISK REGISTER**
 Classification: Unrestricted

Summary: To present the refreshed Strategic risk register.

FOR INFORMATION

INTRODUCTION

1. The Strategic risk register has been refreshed by Resource Directors and its content recently agreed by COG.
2. The entries within the register represent the key risks that, should they materialise, may have a significant impact upon the Council and achievement of its objectives.
3. For the first time it is intended to submit this register, along with directorate risk registers, to Cabinet for information at the next available opportunity.

OVERVIEW OF REGISTER

4. The Strategic register is compiled from key cross cutting risks identified at directorate level and major individual risks that could impact upon KCC as a whole. The identified risks have the potential to change the way in which the Council operates for a significant period of time or permanently. For many of the risks the source is external in which case the controls identified have only be designed to limit impact upon the Council.
5. Risks within the register are listed according to their assessed level of residual risk as opposed to numerical order. Risks are allocated unique reference numbers when first included within the register which they retain in order to allow monitoring of developments and do not therefore convey any assessment of priority.
6. The register was last presented to this Committee in Spring 2008. As expected the main areas of risk have remained relatively stable over the year however there have been a number of minor movements which include:
 7. .1 Inclusion of three new risks


Government Funding constraints	Escalated from
--------------------------------	----------------

	CED risk register
Increase in numbers of people claiming support who have no recourse to public funds	New risk
Hypothecated funding	Escalated from directorate registers

- .2 The description of the source and business objectives leading to the risk have been improved to provide a more strategic perspective.
 - .3 Mitigating actions are more comprehensive and have been updated to reflect progress
 - .4 Where the residual rating of a risk has altered this is indicated by an arrow depicting the direction of change
8. All changes to the register since 2008 have been italicised in bold for ease of identification.
 9. In total 18 areas of risk have been listed. The two highest rated risks relate to the economic downturn and the impact this will have upon future levels of Government funding.
 10. Risk No.2 has been further revised following the potential Swine Flu epidemic and although its risk rating was recently reduced following review by Resource Directors it has since been increased to its former level.
 11. Reference to most risks within the Strategic register can be found within directorate registers to some degree. This is inevitable as strategic risks will impact at lower levels within the organisation.
 12. This register will now be reviewed and presented quarterly to COG.

RECOMMENDATION

13. Members are asked to NOTE the revised Strategic risk register.

Darryl Mattingly
Corporate Risk & Insurance Manager
 **01622 694632**



STRATEGIC RISK REGISTER – 2009

Corporate risks are managed by the Chief Officer Group with directorate support. Corporate risks are those that can be described as presenting a:

- Significant Council wide risk
- Significant risk specific to one directorate which could impact upon the Council as a whole
- Significant risk to the Council as part of working with external organisations or its role within the community

Summary of risks after mitigating actions

Total number of risks	18	
<i>(May 2008: 15)</i>		
High	1 (0)	
Medium	9 (11)	
Low	8 (4)	

Notes: Italics and bold represent changes from May 2008.

Page 193

Ref & Directorate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Rating (5x5 matrix)		
					Impact	L'Hood	Risk
No. 16 ALL	COG	Government funding and constraints (external)	Government funding fails to increase or is reduced	<ul style="list-style-type: none"> • Lobbying of Central Government • Robust MTP • Peer review of pressures and savings • Resource Activity Analysis 	4	5	20
No.1 ALL	COG	Downturn in economic environment (external)	Reduction in income from lower asset valuations, increased costs arising from higher interest rate. Possible difficulties in accessing funding for major projects. Reductions in, or changes to funding distribution of special grants. Inability of clients to pay for services received. Increasing demand for services.	<ul style="list-style-type: none"> • Robust financial forecasting processes including MTFP • Financial monitoring systems • Capital strategy • Management action planning and monitoring • Lobbying, responding to government consultation to minimise redistributive impact to Kent. • PEF2 created to allow short term retention of properties until market improves • Review charging policies 	3	5	15 ↑

Ref & Direct orate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Rating (5x5 matrix)		
					Impact	L'Hood	Risk
No.2 ALL	COG	a) Major incident or accident (external)	<p>Inability to deliver services due to lack of human resource and technical support i.e. Vital supplies 'not getting through'. Vital support to vulnerable people threatened. High demand for post incident support. Prolonged major disruption to road/rail travel. Failure of external support structure</p>	<ul style="list-style-type: none"> Business continuity plans under development Merrycon consultants assisting Emergency Planning KCC Emergency Planning procedure developing internal/external mitigation measures Participation in Kent-wide cross agency emergency planning group Intelligence gathering through Kent Resilience Forum Regular 'exercises' and rehearsals Competent and experienced management teams assessing risks against critical functions Horizon scanning Targeted proactive approach to Kent Resilience partnership 	4	3	12
		b) Pandemic event (High mortality rates) (external)			4	3	12
		c) Pandemic (minor symptoms) (external)			4	3	12
No.3 CED	David Cockburn	Reliance on ICT solutions for provision of key services (internal/external)	<p>Severe or prolonged failure of ICT capability across Council</p>	<ul style="list-style-type: none"> Establish and maintain enterprise architecture to identify business drivers for ICT strategy. Identify through MTFP process ICT investment requirements to support business change. ICT Board has identified key priorities for investment in line with funding constraints. Strategic initiatives to be cross referenced between <u>ALL</u> Directorates prior to implementation. <u>All</u> ICT investment to be aligned to strategic framework. Consistency of IT platform across KCC (Technology refresh programme). Proactive contract monitoring Partnership working arrangements Identify ICT requirements that support effective business continuity 	4	2	8 ↓

Ref & Direct orate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Rating (5x5 matrix)		
					Impact	L'Hood	Risk
No.4 ALL	COG	Demographic changes within Kent. e.g. Aging population, asylum seekers, increasing numbers of disabled and LAC placements into Kent, falling school roles and increased growth in population (external)	Failure to plan for unexpected growth which leads to increased demand upon services Increasing number of LAC children and adult /older care people within Kent placing additional demands upon health care, education and other related services. Government funding fails to match increasing demand. Service transfers between public bodies not transparent/fully funded (e.g. learning Disability from NHS and LSC). Failure to modernise the services Under involvement in preventative services. Inflated costs in meeting demands due to market forces. Lack of affordable/suitable foster care provision due to competition from private agencies.	<ul style="list-style-type: none"> • Analysing and refreshing forecasts to maintain level of understanding • Service reviews • Response to CSR 2010 • Primary Strategy • Partnerships with other agencies etc • Developing better support systems for Foster carers and specialist carers • Preventative Services • Business Plan, Fostering Action • PSA – reduce no. of LAC • Multi-agency protocols regarding placement of children in Kent • Close working with partners • Contractual agreement to value of transfers. • Service reviews and transformation 	4	2	8 ↓
No. 5 CFE/ CMY/ KASS	COG	Information sharing and cross agency working to provide services (internal)	Failure to share information between agencies which could lead to abuse or death of vulnerable children or adults Proper intelligence is not shared between services / agencies Failure to adhere to procedures and protocols around Data Protection and FOI requests	<ul style="list-style-type: none"> • Integrated systems in development • Safeguarding arrangements in place around children's services • Safeguarding arrangements in place around adult services • Common Assessment Framework in development • Robust Preventative Strategy • Well trained, high calibre staff with clearly defined reporting structure. • Multi agency Child protection policies in place • Multi- agency Board for ContactPoint, lead professional function and CAF in place • Case Tracking audit and review of filing arrangements • CEO review of systems • Caldecott guardians • MAPPA (Multi Agency Public Protection Agency) • Implementation of CRB checking and application for volunteers and agency workers 	4	3	12

Ref & Direct orate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Rating (5x5 matrix)		
					Impact	L'Hood	Risk
No.8 All	CE/COG	Delivery of corporate strategy resulting in customer satisfaction and engagement (internal)	KCC is remote and fails to understand and/or meet the needs of the community. Failure to effectively communicate what we are doing. Failure to deliver commitments to meet public expectations. Loss of reputation Failure to listen to feedback	<ul style="list-style-type: none"> Management of corporate engagement Communications strategy Improved business planning strategy and in year monitoring Objectives reflected within business plans Business planning process aligned with risk management and audit planning Reassessment of planned outcomes to ensure alignment with required outcomes Kent Agreement 2 Progressing towards KCC Chartermark Customer feedback IIP individual action plans 	3	3	9
No.10 ER	David Cockburn	Growth Agenda & need for regeneration: KCC Regeneration Framework (internal)	Regeneration Framework does not deliver clear regeneration objectives and targets. Activity lacks clear vision and KCC fails to play its part in managing the speed of development within growth areas and areas in need of regeneration. As a result failure to secure funding for key developments and projects	<ul style="list-style-type: none"> Specialist team set up and restructure under way Monitoring processes and reports to Members, COG & DST Cross directorate working arrangements set up Partnership Executive Boards KCC Regeneration Board set up High level KCC finance input Extensive consultation with key partners 14/24 apprenticeships What Price Growth key updated Backing Kent Businesses New Economic Board High level Finance input 	4	2	8
No.11 All	COG	Commercial Income generation activity (internal)	Commercial Income generation objectives and actions damage Kent County Council's reputation within business community.	<ul style="list-style-type: none"> Business case and risk analysis approval process Effective communications strategy 	2	4	8
No.6 ALL	COG	Assessment (external)	New CAA organisational assessment may not confirm KCC's current 'excellent' status	<ul style="list-style-type: none"> Performance Improvement Plan Revised Performance Management Framework New approach to revised Use of Resource assessment and Value for Money Work undertaken with partners to prepare for new assessment regimes Regular contact with Kent Audit Commission lead 	2	3	6 ↓
No. 7 ER/CMY	COG	Closure of access routes to France (external)	Operation Stack becomes a long standing feature (i.e. several weeks or more) due to prolonged industrial action or incident in Channel	<ul style="list-style-type: none"> Plan - Operation Stack Joint emergency planning arrangements Ongoing implementation and review of Operation Stack arrangements Development of lorry parks strategy 	3	2	6 ↓

Ref & Direct orate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Rating (5x5 matrix)		
					Impact	L'Hood	Risk
No.9 KASS/ CFE	Oliver Mills / CFE	Health Service Economy (external)	<p>Differential services and access developing between East and West of the County</p> <p>Failure of partnership(s) leading to poorer, more dislocated services</p> <p>Financial pressures leading to inappropriate cost transfers, or increased debt</p> <p>Move to foundation trust status destabilising relationships</p> <p>Hospital reconfiguration</p>	<ul style="list-style-type: none"> Representation on PCT Boards PCT representatives attend extended quarterly KASS Strategic management Team meetings Joint appointments to key posts (specifically Public Health and in CFE; but there are a number of others) Close monitoring and management of debt position Shared projects and initiatives (with shared governance arrangements) Scrutiny through HOSC 	3	2	6 ↓
No.12 All	COG	Partnerships (internal)	<p>Ineffective approach to the set up of management and governance arrangements result in failure to achieve desired outcomes</p> <p>Deterioration in relationships</p>	<ul style="list-style-type: none"> Improved control environment to include financial management Risk analysis for key partnerships, risk management training programme council wide Formal control, monitoring and reporting mechanisms Effective communication strategy Focus on purpose of partnership 	3	2	6
No.13 ALL	COG	Corporate manslaughter/ Public Liability (internal)	<p>Prosecution following injury to the public or employees due to poor health and safety policies, maintenance of assets and procedures etc.</p>	<ul style="list-style-type: none"> Health and safety policies, procedures, risk assessment and auditing Auditing of key contractual arrangements, e.g. Kent Highways Services Staff training Management awareness 	3	2	6
No. 14 All	Amanda Beer	Significant loss of key staff (internal)	<p>Inability to attract and retain employees with suitable skills, experience and behaviours to senior and key roles</p> <p>KCC unable to attract staff for senior posts</p>	<ul style="list-style-type: none"> Delivery of Strategy for Staff Staff care policy Workforce strategy with private sector Investment in training More effective use of professional staffing resources on more complex issues Succession planning Reputational management of senior posts 	2	2	4

Ref & Direct orate Activity	COG Responsible Officer	Source & strategic business objective(s)	Risk	Mitigation	Rating (5x5 matrix)		
					Impact	L'Hood	Risk
No.15 ER		(external) Extreme weather events	Tidal surge in Channel combined with high winds causes flooding of low lying areas Drought Failure to appropriately manage time line and required actions	<ul style="list-style-type: none"> Forecasting activity Emergency procedures for special events Business Continuity Planning Management of financial impact to include Bellwin scheme Educating / influencing activities to change behaviour Applying BREAM standards in design of new buildings 	2	1	2
No. 17 ALL	COG	Increase in numbers of people claiming support who have no recourse to public funds	Increased cost to KCC	<ul style="list-style-type: none"> Continual monitoring by all Directorates of costs Membership of the No Recourse to Public Funds Network in order to keep informed of legislative changes Implementation of policies in line with the Network 	2	2	4
No. 18		Impact of Hypothecated funding	Managing services due to the stop start nature or insufficient hypothecated funding and after source finishes within Government formulate grant	<ul style="list-style-type: none"> Make use of Freedoms and Flexibilities Robust financial monitoring systems Negotiations with Government Clear 'exit strategy' for time limited funding 	3	4	12

Page 198

Rev: Mar 09

Risk Rating Matrix

Likelihood	Very likely	5	5 Low	10 Medium	15 Medium	20 High	25 High
	Likely	4	4 Low	8 Medium	12 Medium	16 High	20 High
	Possible	3	3 Low	6 Low	9 Medium	12 Medium	15 Medium
	Unlikely	2	2 Low	4 Low	6 Low	8 Medium	10 Medium
	Very Unlikely	1	1 Low	2 Low	3 Low	4 Low	5 Low
	RISK RATING MATRIX		1 Minor	2 Moderate	3 Significant	4 Serious	5 Major
Impact							

By: Richard Long – Chairman of Governance and Audit Committee
To: Janet Dawson - The Head of Audit & Risk
Governance and Audit Committee – 30 June 2009
Subject: INTERNAL AUDIT PROGRESS REPORT
Classification: Unrestricted

Summary: This report summarises the outcomes of Internal Audit activity.

FOR INFORMATION AND DECISION

INTRODUCTION

1. This report contains the outcome of Internal Audit's work completed during February, March and April 2009. Assurances are provided in accordance with the definitions of Internal Audit assurance levels shown in Annexe H.

21 audits were completed in this period, which are listed in the table below together with a brief description of the audit.

IRREGULARITIES

2. Since the end of November 2008 four cases of suspected irregularity have been reported, each involving either KCC finances or business processes. Two irregularity investigations were concluded during this period. For details of completed irregularity investigations please see Annex J.

PROGRESS REPORT

3. Key points in the report

The first item provides details of a newly agreed protocol for clearing draft Internal Audit reports.

Annex A shows the audits from the 2008/09 audit plan that have started, are at draft report stage and completed. Annex B shows the status of audits from the 2009/10 audit plan as at 31 May 2009.

Annex E details summaries and directorates' responses for audits where a 'minimal' assurance was given.

Annex F shows the directorates' progress against the implementation of recommendations made and agreed which were due to be actioned by April 2009.

Recommendation

3. Members are asked to note this report.

Janet Dawson
Head of Audit & Risk
Ext: 4614
18 June 2009

Protocol for Clearing Draft Internal Audit Reports

Background

Since 2008/09 Members of the Governance and Audit Committee have requested quarterly reports that show the progress of the audit plan and individual audits in the plan. The information includes the date draft reports are issued and Members have expressed concern about the outstanding clearance of draft reports.

The objective of the draft report is to:-

- give the auditee(s) the opportunity to discuss the findings, risks identified and assurance given ;
- ensure that findings reported are factually accurate;
- ensure that recommendations made are practical and can be implemented;
- agree the management action plan, together with the name and post of the 'accountable' manager who will be responsible for ensuring agreed actions are implemented;
- the date by which the agreed action(s) will be completed

However, the delay in clearing draft reports is a concern because:-

- senior management and Members may not be aware of risks identified, and/or non compliance with agreed policies/practices;
- actions may not be taken to mitigate areas/findings identified as posing critical or high risk;
- Internal Audit is unable to provide assurance on controls and how risks are being mitigated within the Authority;
- poor use of Internal Audit resources (and the auditees) in 'chasing up' responses.

A report was taken to the Chief Officers Group (COG) the Finance Strategy Board (FSB) and the Resource Directors Group. The report made the following recommendations for improving the process and providing information to senior management.

- Where practical/relevant directorate to identify one person who will be responsible for collating responses.
- The Resource Director (or Head of Unit for CED) to be issued with draft reports at the same time as the 'auditee'.
- Date that responses are due to be received to be on the front cover of the report.
- If responses have not been received (ie responses that enable the report to be cleared) within 20 working days, the auditee(s) will be reminded and informed that the draft report will be issued to the auditee's line

manage/senior management informing them that the responses are outstanding.

- If responses have not been received after 35 working days the relevant Managing Director will be informed that there is an outstanding draft report, highlighting (where relevant) areas/risks that have been identified as critical and high.
- A report will be taken to the Resource Directors meetings (on a monthly basis) and the Finance Strategy Board (on a quarterly basis) showing the status of all draft reports, using a 'traffic light' system as follows:-
 - Green – responses not due or have been received within agreed timescales;
 - Amber – responses overdue by between 5 and 35 days
 - Red – responses overdue by more than 35 days

These recommendations have been discussed and agreed and the first report was taken to the April 2009 Resource Directors meeting. As a consequence four 'red' status reports were able to be cleared.

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW01	Corporate Governance Overview Health Check	Ongoing assurance is required. Work to include high level review of corporate governance arrangements against best practice and will also consider adequacy of processes underpinning Governance Statement. Include follow-up of prior year report.	Q4	6 Mar 09				
AW02	Risk Management	Work to build on the high level review undertaken in 2007/2008 to focus on the adequacy of corporate risk management arrangements and the linkages between; Business planning, Performance appraisal, Budgeting processes.	Q4	16 Mar 09				
AW03	Governance of individual partnerships	Work to build on audit undertaken in 2007/08. Focus to include, follow up on progress made against previously agreed management actions. Assess level of compliance with policies and procedures in a sample of major/significant partnerships.	Q2	7 July 2008	13 Nov 2008	6 May 09	Substantial	Audit finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW04	Contract monitoring and tendering process	Review of tendering procedures and contract monitoring. Scope to include, processes for tender evaluation and selection of suppliers, review of processes to manage key contracts, quality assurance of suppliers processes. The individual contracts that are reviewed will include Building Schools for the Future (BSF)	Q2/3	Apr 09				Delayed at officer request, due to progress of BSF programme
AW07	Information Governance (original title was Data Management Arrangements)	Review and assurance over implementation of data quality policy council wide, with a focus on management arrangements of critical/sensitive data, including testing to validate controls in place and review of existing guidance available to staff on acceptable practice for data handling.	Q3	15 Oct 2008	9 April 09			This is being taken to the 25 June Resource Directors meeting to agree actions and implementation dates.
AW08	Third party ICT Provision - Procurement	Review the contractual arrangements for the provision of ICT services by third parties to business-critical computer systems. Sample to be agreed with management prior to audit.	Q3	16 Mar 09				

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW09	Business Continuity Planning	A review of Business Continuity Planning and Disaster Recovery arrangements.	Q2/3	7 Oct 2008	11 Jan 2009	14 April 09	Minimal	Audit finalised
S02	Bank Reconciliations	Assurance that income and payments are accounted for in the correct financial year	Q3/Q4	26 Feb 09	20 Mar 09	24 April 09	High	Audit finalised
S04	Fixed Assets	Systems based approach considering key risk exposures. Include mapping of key control areas.	Q4	4 Feb 2009	9 June 09			
S06	Accounts Receivable	Systems based approach considering key risk exposures. Include mapping of key control areas and liaison with external audit requirements	Q3	3 Dec 2008	25 Feb 09	7 May 09	Substantial	Audit finalised
S08 (a)	Payroll Allowances	Substantive "Cradle to Grave" approach, following through samples of payments for example, allowances paid to staff.	Q3	3 Nov 2008	14 Jan 2009	12 May 09	Substantial	Audit finalised
S12	Follow up to Overtime Payments	Follow up to audit carried out in 2007/08.	Q3	5 Feb 2009	31 March 09	29 April 09	N/A	Audit finalised - No assurance given as the implementation of recommendations made in previous audit needs a longer period of time to be implemented.
CED01	Energy Procurement	Review of the revised	Q4	12 Jan 2009	24 March	16 April 09	High	Audit finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		energy procurement process to ensure that risk assessment and controls are in place to ensure compliance with legal requirements and the authority's Code of Practice.			09			
CED02/ CED03	Operating System Security (Windows XP)	Review of operating system security, administration, support and maintenance procedures (as extension of network security review 2007/08). This will be done as one audit.	Q3	19 Jan 2009	15 April 09			Report being finalised
CED04	Kent Public Service Network (KPSN) Project Part 2	A review to assess the project management processes and procedures in place to manage system development activities to ensure the successful delivery of the new KPSN.	Q2	30 July 08	4 Nov 2008	16 Feb 09	Substantial	Audit finalised
CED05	Oracle Review HRMS, Payroll & I procurement	Oracle application security controls covering Oracle system embedded controls configured in the system design within selected modules as identified from the previous 0708 Oracle Application Security audit.	Q3	25 Nov 2008	16 March 09			Responses being collated to finalise report
CED07	One – Office	One Office application	Q4	9 Feb	1 April			Report being finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	Application Security	security controls, focussing on users' access rights and segregations of duties.		2009	09			
CED08	Members Code of Conduct – Locally Managed Framework	A review against the Standards Board checklist for the implementation of the locally managed framework of compliance with the Members Code of Conduct. Timing of this audit will depend on receipt of government regulations and SBE guidance.	Q1	15 Jan 2009	9 March 09	10 March 09	High	Audit finalised
CED10	Expenditure - Direct Purchases	A review to provide assurance that purchasing of direct materials at Commercial Services business units are properly managed, controlled and accounted for.	Q4	9 Feb 09	29 April 09			
CFE01	Allocation of Cluster Funding	An audit of the processes in a sample of Clusters to provide assurance that the funding allocated to the Clusters is spent by them following an appropriate bidding and evaluation process linked to objectives and that records are maintained to enable management to monitor the expenditure	Q1	1 May 2008	9 July 08	24 Feb 09	Minimal	Audit finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		and evaluate the results.						
CFE06	CRB checks	Assess adequacy of, and compliance with, procedures for identifying staff that require CRB checks due to having access to the records of vulnerable people. (Non schools staff).	Q3	22 Sep 2008	22 Jan 2009	24 March 09	High	Audit finalised
CFE07	Effectiveness of Financial Management	Confirmation that the Directorate is obtaining assurance on financial management in schools and by non delegated budget holders.	Q3	23 Feb 2009	17 April 09	1 May 09	Substantial	Audit finalised
CFE10	ICS Data Migration	A review of the controls in place for migrating data from the Swift system to the Integrated Children's Service (ICS) system.	Q4	Jan 09	Mar 09	11 May 09	Limited	Audit finalised
CMY02	CRB checks for volunteers-follow up	A follow up on the findings of a 2007/08 audit, which gave minimal assurance that volunteers working with clients are appropriately checked.	Q2	22 Sep 2008	22 Jan 2009	27 Feb 09	High	Audit finalised
CMY03	Internet access in CMY establishments accessed by the public	To provide assurance that the Directorate is taking sufficient precautions to safeguard the users of the internet in their establishments	Q3	16 Oct 2008	10 March 09	10 May 09	Various	Audit finalised – four Community services included in audit review all provide with an individual audit assurance ranging from

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
		accessed by the public						substantial to limited.
CMY05	Tribal EBS System	Review of operational, support and maintenance procedures system security and data integrity controls	Q4	11 Mar 09	11 May 09			A meeting is being held with Tribal at the end of June to discuss findings of report and to agree actions.
CMY07	Registration Service - Income	An audit to assess the adequacy of the systems and procedures for recording and accounting for income.	Q4	17 March 09	5 May 09			This is being taken to the 25 June Resource Directors meeting to agree actions and implementation dates.
KASS01	Capital Projects	To examine the planning of capital projects, contracts/estimates and how these are drawn up and the corresponding governance arrangements (i.e. is the authority clearly set out and understood by all parties).	Q4	12 Jan 2009				
KASS03	Financial Assessments	Evaluation for the system for undertaking financial assessments of clients and the role of the specialist finance teams.	Q2	15 Sep 2008	17 Feb 09	20 April 09	High	Audit finalised
KASS09	Occupational Therapy Bureau Equipment	Review to assess the controls in place over the assessment of eligibility for occupational therapy equipment and the subsequent monitoring and return to the Directorate.	Q4	16 Feb 2009				
KASS10	Swift system	Follow up to audit carried	Q3	26 Nov	23 Dec	16 Feb 09	Substantial	Audit finalised

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	Security	out in 2007/08.		2008	208			
KASS11	Transitional Arrangements for Learning Disability client group	A review to identify the effectiveness of the transitional arrangements for the Learning Disability client group from Health to Social Care.	Q4	9 March 09	1 May 09			This is being taken to the 25 June Resource Directors meeting to agree actions and implementation dates.
ER05	Household Waste Recycling Contracts	Evaluation of the control environment of the recently re-let contracts. Scope to include contract management and monitoring. Adequacy of the KPIs of quality of service. Ensuring that the Council is getting VFM from the service.	Q2	2 Oct 2008	19 Feb 09	8 April 09	Substantial	Audit finalised
ER06	Securing adequate funding to deliver business objectives	A high-level review of the process within Environment and Regeneration for managing inward investment. The review will look to identify best practice and identify mechanisms to ensure that the directorate is identifying and maximising sources of funding.	Q3	6 Feb 2009	14 April 09	27 May 2009	Substantial	Audit finalised
ER08	Local transport	Examine system and process for prioritising KCC	Q4	6 April 2009				

Progress Against 2008-09 Audit Plan quarters 1, 2, 3 and 4

Annex A

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
	plan	transport schemes.						
ER09	Empty Property Development Loans	Review to ensure that controls over empty property development loans are made to appropriate people and there are adequate controls in place over the recording, monitoring and collection of debt.	Q4	15 Jan 2009	19 March 2009	21 may 2009	Limited	Audit finalised
ER10	Kent Downs Area of Outstanding Natural Beauty (AONB)	Audit of financial controls	Q2/3	13 Nov 2008	19 Dec 2008	3 March 09	Limited	Audit finalised

Audits highlighted in bold indicate completed audits

Progress Against 2009-10 Audit Plan quarter 1

Annex B

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
AW04	Pro-active Fraud work - Contracts	Review procurement practices in a sample of areas to provide assurance that potential of fraud is minimised.	Q1					This will be on going throughout the year
AW07	Premises Security	A review of premises security including the processes in place for decommissioning premises. Communities directorate in 2009/10	Q1	12 May 09				Terms of Reference issued
S01	Year End Accounting	Assurance that income and expenditure are accounted of in the correct financial year.	Q1	7 Apr 09	15 May 09			
S04	Imprest Accounts	A review of imprest accounts in the Authority to assess whether they are operated within approved limits and identify any accounts surplus to requirements.	Q1					Terms of Reference issued
S07	Treasury Management	A review of treasury management arrangements	Q1					This audit will take place in Q3/4
S13	Management Review	To provide assistance at year end for the 'close down'	Q1	8 May 09				
CED01	Income – Legal Department	Provide assurance that all income due is completely recorded, invoiced and collected in a timely manner.	Q1					Terms of Reference issued

Progress Against 2009-10 Audit Plan quarter 1

Annex B

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
CED03	Property Management System Security	Property management application security controls, including users' access rights, web access and segregations of duties.	Q1					Terms of Reference issued
CED07	Axis Pensions System	A review of application controls, security and management of the operation of the Axis Pensions system	Q1					Terms of Reference issued
CFE01	Data Quality	An audit to assess controls the Directorate rely upon to ensure the accuracy of the information used to complete DCSF statutory returns.	Q1					Terms of Reference issued
CFE12	Children's Centre Resource system	Review of project management or review of the design of the application controls within the system.	Q3/4	6 May 09				Originally planned for Q3/4 changed to Q1 Audit commenced
CMY03	Business and Project Risk Identification	An assessment of the processes that enable the Directorate to identify and respond to key risks.	Q1					This was a management request, but the directorate has decided that they have processes in place to identify risks as part of heir business risk assessments. Another audit will be substituted, still to be agreed.
KASS01	CRB - Volunteers	Follow up audit of controls relating to CRB checks on volunteers used in KASS	Q1					Terms of Reference issued
KASS09	Swift – Client Billing	Post implementation review	Q1	6 May 09				Audit commenced

Progress Against 2009-10 Audit Plan quarter 1

Annex B

Ref	Audit	Description	Planned Start	Audit commenced	Draft Report issued	Final Report Issued	Audit Assurance	Comments
ER01	Kent Highways Service	Evaluation of costings	Q1					Will now take place in Q3/4

National Fraud Initiative

- Collation and submission of data sets to the Audit Commission as part of the National Fraud Initiative (NFI) has been completed and reports of potential matches (ie matches with other data sets) have been received. Reports of matched data are now being investigated.

Advisory Work

- Attendance at various working groups/forums, including, Procurement Forum; ICT Operations Board, Client Billing Group, Self Directed Support.

Irregularities

- Working on a number of investigations.

AW – Governance of Individual Partnerships

Scope

The objective of the audit was to review the governance arrangements for a sample of significant and/or major partnerships.

Overall Assurance - Substantial

The audit confirmed that there are governance arrangements in place for partnerships. One of the issues identified from the audit was the lack of a corporate register of partnerships that are key to the Authority. To take this forward, the directorates have agreed to include their significant/major partnerships in their risk registers, and partnerships 'key' to the Authority will be included in the Corporate Risk Register.

The recommendations have been accepted by management.

AW – Business Continuity Planning

Scope

The objective of the audit was to assess the Authority's business continuity planning arrangements.

Overall Assurance - Minimal

A continuity of Business (CoB) manual was created in 2004 by the Emergency Planning team to serve as a template for the CoB for directorates. Not all directorates have developed their own CoBs and there is a risk that a lack of clear guidance, communication and understanding of roles and responsibilities means that the

Authority may not be able to restore key and/or critical processes within the timescales required in the event of a disaster.

Recommendations have been made which have been agreed by management and an action plan is in place to address the issues identified.

CED – Bank Reconciliation

Scope

The objective of the audit was to review the effectiveness and timeliness of the bank reconciliation process for KCC's three major bank accounts.

Overall Assurance – High

KCC has three major bank accounts, the General Account, Salaries Account and Payments Account. The audit confirmed that controls are in place and operating well to ensure that reconciliations are carried out accurately and in a timely manner. There is an adequate separation of duties between accounting, reconciliation and the review process to ensure that any error or potential fraudulent activity would be identified promptly. No recommendations were made.

CED – Accounts Receivable (AR)

Scope

The objective of the audit was to review the processes and controls in place to ensure that debts are accurately recorded, invoices raised promptly, income receipted and banked properly, debts recovered, and VAT is properly accounted for.

Overall Assurance – Substantial

The audit confirmed that Exchequer Services has good effective controls in place relating to the AR system. Invoices requests are processed and dispatched promptly. However, invoice requests are not always submitted promptly by directorates and mandatory information required on invoice requests is not always completed. We also found that officers who authorised write offs were not consistent with the delegations made in the Scheme of Delegation.

Two recommendations have been made to improve controls which have been accepted by management.

CED – Payroll Allowances

Scope

The objective of this audit was to review the controls and authorisation process for paying allowances

Overall Assurance – Substantial

The audit found that for the majority of allowances paid there is evidence of good controls and authorisation from appropriate officers. However, for one group of officers, payments had been

made, which at the time of the audit, there was no evidence that they had been properly authorised. Subsequent to the audit documentation was found to evidence authorisation of the majority of these payments. The exception was one payment, where appropriate authorisation had not been received by Employee Services until after the payment had been made.

Recommendations have been made to improve controls which have been accepted by management.

CED – Overtime Payments Follow Up

Scope

The objective of the audit was to review the progress of the implementation of recommendations made in the audit of Overtime payments carried out in 2007/08.

Overall Assurance – Not Applicable

A follow up audit was carried out to review progress on the implementation of recommendations made. A number of the recommendations had been implemented including the introduction of a universal overtime claims form to replace a number of different forms that had been in use. However, recommendations around the Working Time Directive and ensuring that overtime is worked in line with the KCC Scheme and Conditions of Employment need some time to be implemented. A further follow up is therefore, planned for 2009/10.

CED - Energy Procurement

Scope

The objective of this audit was to review the controls and governance arrangements in place. Regarding the planning and consultation with stakeholders, the tendering and selection decisions, initial start up process and the ongoing procurement and supply of energy.

Over Assurance – High

The Framework for the flexible procurement of energy is a new concept which is being introduced by the Laser Energy Buying Group. The Group procures energy for over 70 local authorities with an expected turnover of £300 million. The audit found that there were good standards of documentation to support information used to calculate the level of energy that was needed to be purchased for members of the Group. All Laser members are consulted on the proposals for the flexible procurement of energy prior to undertaking the tender process. The Governance Panel is provided with information to enable them to make informed decisions.

One recommendation was made to further improve controls and this has been agreed by management.

Eight recommendations have been made which have been accepted by management. A follow up audit will be carried out in 2009/10 to review implementation of the recommendations made.

CED – Kent Public Service Network (KPSN) Migration Review (Part 2)**Scope**

The objective of the audit was to review the proposed migration and roll out strategy plan for the Kent Public Service Network.

Overall Assurance – Substantial

The Kent Public Service Network is a network solution to support KCC's operational activities delivering services to the community and people of Kent. The audit found that the KPSN migration is a complex project with numerous partners involved and tight deadlines, and the KCC and KPSN implementation team are taking the necessary steps to minimise the potential for technical risks to materialise. Whilst this does not eliminate the possibility of issues occurring, the control environment examined was considered to be robust.

One recommendation was made which has been accepted by management.

CED – Members' Code of Conduct – Locally Managed Framework**Scope**

To review compliance with the Locally Managed Framework under the Code of Conduct for Members.

Overall Assurance – High

The audit confirmed that the Framework has been adopted and is being complied with. The Standards Committee is compliant with the guidance relating to the monitoring and assessment of complaints and the Monitoring Officer makes quarterly and annual returns to the Standards Board. One recommendation was made

to with regards to the updating of the Terms of Reference of the Standards Committee. This has been accepted by management.

CFE – CRB Checks for Non School Staff

Scope

To review the controls in place for the CRB checks for non school staff who come into contact with vulnerable groups of their details.

Overall Assurance – High

The audit found that there were comprehensive procedure notes for staff with responsibility for processing CRB applications and that these procedures are being complied with. There are formal procedures within the Recruitment Section to remind new employees of the need to complete CRB applications, with written reminders issued at set intervals. Positive responses are properly identified and action within the agreed protocol taken with the relevant manager and Business support. However, at the time of the audit, there were a number a number of applications could not be processed because of insufficient/incomplete information. One recommendation has been made to improve controls which have been accepted by management.

CFE – Effectiveness of Financial Management

Scope

This objective of the audit was to assess the effectiveness of financial management for both the delegated schools' budget and non-delegated budgets.

Overall Assurance – Substantial

The audit found that there are processes and controls in place for monitoring the budgets. For schools' assurance, CFE assess schools' compliance with the Financial Management Standard in Schools (FMSiS). Assurance is also obtained via the Financial Compliance Unit who carries out a rolling programme of financial compliance visits to schools over a three year period. However, at the time of the audit no visits had been carried out during 2008/09 but plans were in place to start the visits in the first half of the 2009/10 financial year. For non delegated budgets, a programme of financial compliance visits was undertaken. The programme is designed to provide assurance on the financial management of 159 units in CFE who are accountable for non delegated budgets.

Five recommendations were made to improve controls and processes and these have been accepted by management.

CFE – ICS Data Migration

Scope

To review the controls in place for migrating data from the Swift system to the Integrated Children's Service (ICS).

Overall Assurance - Limited

The reporting on the delivery of the Integrated Children's Services became a national requirement in January 2006. KCC was initially going to use a module within the Swift system but it was determined that the application did not meet the business requirements. There was therefore, the need to migrate data held on Swift to a new ICS and Fostering and Adoption (FA) system. There were issues identified, for example there were not always formally defined data quality data cleansing and data migration objectives. It was not possible to implement any recommendations for this particular migration. However, recommendations have been made which management have agreed will be applied to future projects of this nature.

Page 220

CMY – Criminal Records Bureau (CRB) Checks for Volunteers – Follow up audit

Scope

The objective of the audit was to review the progress over the implementation of recommendations made in the previous audit carried out during 2007/08.

Overall Assurance – High

The original audit identified both areas of excellent and poor practice in the units where volunteers are involved in assisting with service delivery. Overall, matters are much improved since the original audit. With the exception of Youth Offending, however there is one weakness common to all the areas of activity reviewed, and this is the practice of allowing volunteers to commence their duties prior to the issue of a CRB. Reliance is placed on the relevant manager to supervise and/or restrict the activities of the volunteer prior to the issue of the CRB check. However, there is no guarantee that the supervision is completely effective of that circumstances will not arise where such supervision is either absent or ineffective. One recommendation has been made to further improve controls.

CMY – Internet Access by the Public

Scope

The objective of the audit was to assess the adequacy of controls to safeguard users from accessing inappropriate material and to protect KCC's reputation.

Overall Assurance – Minimal to Substantial

The following Communities establishments were visited as part of the audit, Libraries, Youth Service, Adult Education and Key Training. With the exception of Libraries, the main issues identified were that users were not always made aware of the

correct protocols to follow when accessing the internet on public computers and therefore, there was a risk that inappropriate sites could be accessed. There was also no assurance that unlawful or inappropriate activities could be identified to an individual user.

Recommendations have been made to improve controls and these have been accepted by management.

KASS – Financial Assessments

Scope

The objective of the audit was to review the processes in place that KASS has to achieve optimum benefit for the financial assessment process.

Overall Assurance – High

There were good processes in place to ensure that clients' financial assessments are accurate and that benefit maximisation is achieved for all eligible adults in receipt of a care managed service. However, there were some instances where documentation to support that benefit advice had been given were not always completed.

Two recommendations have been made to further improve controls which have been accepted by management.

KASS – Swift System Security Review

Scope

The objective of the audit was to review the progress of the implementation of recommendations made in a previous audit.

Overall Assurance - Substantial

An interim audit carried out in 2007/08 identified a number of issues including access controls and data quality. Six recommendations were made to address the issues. Since the original audit management has now fully addressed one of the recommendations made and there is an action plan in place to address the remaining five. Each action has been assigned a designated accountable officer with responsibility for implementing the recommendations.

E&R – Household Waste Recycling Contracts

Scope

The objective of the audit was to review the processes and compliance with the recycling contracts.

Overall Assurance - Substantial

The audit found that there was generally the view that the new contracts had provided staff with a greater leverage to deal with compliance issues and was thought to be a more effective framework than had existed in the previous contracts. Value for money was a major consideration in the selection and award of recycling contracts and an evaluation was made on the amount of savings offered from each tender applicant was carried out and approved by the Procurements and Projects Manager.

Exercises have taken place to ensure users' views are taken into account however; the current method of public engagement is not

as robust as it could be. Regular meetings take place between the contractor and KCC to deal with matters arising and this was felt to be an effective method.

Recommendations have been made to further improve processes and controls which have been agreed by management.

E&R – Securing Adequate Funding

Scope

The objective of the audit was to review the adequacy of the processes and controls in place that are used to identify, secure and maximise funding to ensure the directorate can deliver its business objectives.

Overall Assurance – Substantial

The audit found that there were processes in place to ensure that external funding streams are maximised. Funding requirements are realistic and funding sources are usually only pursued where the division knows that there is a good chance of being awarded the funds.

E&R – Kent Downs Area of Outstanding Natural Beauty (AONB) – Financial Controls

Scope

The objective of the audit was to review the financial controls in place at the Kent Downs AONB Unit.

Overall Assurance - Limited

The processes and controls for the payment of travel claims were found to be working well and salary documentation and travel claims are all authorised by the Director. Key areas requiring improvement include the need to introduce a division of duties between placing orders, checking deliveries, making payments, maintaining records and reconciling the account to the records produced from Oracle and the preparation of any returns.

- The need to develop an appropriate system for ordering, recording and evidencing purchases,
- and the development of an asset register to record the Unit's assets.

Ten recommendations have been made which have been accepted by management.

Summaries of Audits with a Minimal Assurance and the directorates comments

Authority-wide – Business Continuity Planning Review

Assurance – Minimal

Internal Audit were requested by the Director of Finance to undertake a review of the Authority's business continuity planning arrangements and to provide assurance over the control framework in place to mitigate the risks to business continuity it faces.

The Civil Contingencies Act of 2004 places a legal obligation on all local authorities to assess the risk of, plan and exercise for emergencies, as well as to undertake business continuity management. In addition, the Audit Commission's Key Line of Enquiry 4.2 for use of resources now requires (as mandatory) the Council to have a business continuity plan in place which is reviewed on a regular basis. Maintaining an effective disaster recovery and business continuity regime within an organisation is fundamental to the ongoing provision of key systems and services in the event of a 'disaster' situation arising. An organisation therefore needs to fully understand what its key services and systems are, and the means by which critical functions may be maintained, and how systems and data can be restored following system loss. The importance of business continuity planning is recognised by the Authority and a formal Emergency Planning Team is in place, supported by teams within each Directorate.

In 2004, a wide ranging initiative was launched to roll out business continuity management (BCM) across the Authority. This included the development of document templates to simplify and standardise the implementation of plans within each Directorate, as well as other supporting materials. However, since the completion of the risk and impact assessments and development of business continuity manuals as part of the initial drive, it was evident that the maintenance and development of these plans has varied across the Authority, with some Directorates more advanced in the development of their plans than others. This in part can be attributed to the restructuring that has occurred within a number of the Directorates which has delayed the rollout of a full business continuity capability. Action plans are now in place to review and update the current business continuity plans in 2009/10, once the existing business impact and risk assessments have been reviewed. The knowledge and experience of managers across the Authority has proved invaluable when business operations have been disrupted in the past, such as during the heavy snowfall in February 2009, due to their understanding of what action needed to be taken.

The key areas for action identified during the review were:

- The establishment of a formal plan for the further development of business continuity management across the Authority
- The development of a business continuity policy to define the objectives, roles and responsibilities, resourcing and other requirements from an Authority-wide perspective
- The review of legacy business impact and risk assessments within some Directorates, to ensure the key business priorities and risks to these have been accurately captured
- The review of business continuity plans within some Directorates, to ensure they reflect current business processes and key business requirements
- The establishment of a formal process for the review of business continuity plans by the Emergency Planning Team

Summaries of Audits with a Minimal Assurance and the directorates comments

- The development of a formal programme for the testing of business continuity plans
- The implementation of a formal framework for raising staff awareness and communicating business continuity arrangements to staff
- Supporting the ongoing development of staff with business continuity responsibilities with a formal training / education programme

Directorate Comments

This audit confirmed the Resource Directors' view that business continuity planning needed fresh impetus, and they welcomed the report's observations. Good progress has already been achieved in the areas recommended for action.

A formal plan for developing the Council's business continuity management system has been prepared, and its first stage was approved by Chief Officers' Group (COG) in November 2008. It provides an integrated framework for coordinating the complex series of actions that, over the coming year, will embed greater resilience against disruptions in delivering the Council's services.

In January and February 2009, the discontinuity risk to vulnerable clients, and the scale of disruptive effects, was assessed across all service units. Attention focused on critical functions (defined as those that cannot tolerate disruption for more than seven calendar days). Resource directors, managers and a cross-directorate group of staff are refining those assessments.

We are now determining the resources needed in order to recover functionality, to negotiated levels within required time-periods. We are also deducing the critical dependencies on other services and facilities (such as computing and communication infrastructure, fuel for business travel, and particular location or accommodation facilities).

Our continuing programme of staff awareness training will be enhanced. Other training will create a response capability modelled on Emergency response procedures.

This overhaul of previous assessments and continuity plans has not only captured previous knowledge and experience, but has also ensured that the new portfolio of continuity plans reflects current processes, and will secure the indispensable resources required by critically important business functions. A secondary benefit is that many more officers know about continuity issues, and are becoming involved in considering their responses to various kinds of disruption.

We expect to begin generating a new series of business continuity plans (aided by specialist software) from July 2009 onwards. Pilot versions will be severely critiqued and tested by peers and the Emergency Planning team. As experience and expertise grows, more services will become equipped with reliable plans.

Progress and lessons will be reviewed by October 2009, and a second stage of work planned for the subsequent year. This synchronises with the annual revision of risk registers and operational plans. Thus the business continuity management system becomes embedded in our mainstream management processes.

**Summaries of Audits with a Minimal Assurance
and the directorates comments**

David Cloake
Head of Emergency Planning

Summaries of Audits with a Minimal Assurance and the directorates comments

Children, Families and Education

Cluster Funding – Assurance Minimal

The audit was undertaken to provide management with assurance that the funding allocated to clusters is spent following an appropriate planning and evaluation process that is linked to planned objectives. We also considered if records are maintained to enable management to monitor the expenditure and evaluate the results. Since this audit was conducted the 23 clusters have been re-developed and re-branded as 23 Local Children's Services Partnerships (LCSPs). Our recommendations apply equally to financial management in the LCSPs.

The basis of allocating funds from the centre to the clusters has remained unchanged for several years which mean that there was no assurance that the funding was reaching the target areas. Guidance on how funding should be spent was issued to clusters but there were inconsistencies in how this was cascaded to the schools who actually spent the funds and schools were often unaware of any specific conditions attached to the funding.

We reviewed six clusters in detail and found that there was insufficient planning of projects and expenditure in the medium and long term. The clusters varied in the way they spent their funding; whilst all was planned and authorised there were differences in how outcomes were reviewed and monitored. In some cases we felt it was difficult to establish a correlation between the expenditure and the benefit it was bringing to the children in the cluster.

In some instances the requirements to obtain quotations and tenders from external suppliers were not adhered to and there seemed to be a general lack of the clusters reviewing the appropriateness of the goods or services they were buying.

Clusters were concerned that if they did not spend their funding they would lose it, this led to cluster funding being given to schools and therefore showing that it had been 'spent' from the cluster budget. On a similar basis we found payments were being made in advance to suppliers for goods and services that would not be supplied until the following financial year. In some instances when payments were made, there were no specifications of the goods or services the clusters wished to buy in the following year.

We had concerns about the forecasting and monitoring of expenditure in the clusters. We found it was not always accurate or realistic and this could impede accurate decision making by management. We also felt that the clusters would benefit by sharing good and bad practices and ideas.

We made eleven recommendations to address these issues, ten of which have been accepted by the Children, Families and Education Directorate. Of these, eight have already been implemented or are in progress.

Directorate's comments

Awaiting comments

**Summaries of Audits with a Minimal Assurance
and the directorates comments**

**Summaries of Audits with a Minimal Assurance
and the directorates comments**

**Directorates Progress with the Implementation of Audit Recommendations
(Covers February, March and April 2009)**

Annex F

Directorate	Actions due to be in place	Actions in place	Outstanding actions	Progress with outstanding actions	
				Audit	Comments
Chief Executive's Department	4	1	2	Microsoft Exchange	Further work is currently being undertaken on the 2 recommendations relating to this report and requirements are being reconsidered.
			1	Payroll – Appointment to Payment of new employees	ESC are currently undertaking a further project around the issue and return of contracts with a view to reviewing the process to ensure contracts are issued in the most timely fashion and to regulate the return process as far as possible.
Kent Adult Social Services	5	3	2	Procedures Supporting Care Management – East Kent	Recommendations due to be implemented from April 2009 for new clients – as this will be an ongoing process this will be followed up in September 2009 to review progress and ensure process is followed consistently.
Communities	2	2	0		All recommendations have been implemented
Environment & Regeneration	2	1	1	Landfill Allowance Trading Scheme	Job shadowing will be completed as part of the 2009 Action Plan
Children, Families & Education	8	8	0		All recommendations have been implemented
Authority Wide & S151	17	10	1	Data Protection	Information audits will be completed by March 2010 in the Directorates.
			2	Governance of Partnerships	The guidance is currently under review. Resource Directors will include partnership risks in their risk registers and the Risk and Insurance manager has developed a new style risk register to incorporate partnership risks.
			3	Schemes of Delegation	KASS have completed 3 recommendations from this audit; the other directorates will implement their recommendations by 31 August 2009.
			1	Accounts Payable	Recommendation for ISG regarding prime documentation being scanned and retained for the required period will be implemented once the rewritten Financial Regulations are published.
TOTAL	38	25	13		

Internal Audit performance

The following table is designed to provide Members with Internal Audit's performance against Key Performance Indicators.

Performance Indicator	Target	Actual (Apr – May)
<u>Effectiveness</u> <ul style="list-style-type: none"> • % of recommendations accepted • % of recommendations implemented • CPA/CAA Score for Internal Control 	98% 90% Level 4	100% n/a* n/a*
<u>Efficiency</u> <ul style="list-style-type: none"> • % of plan delivered – • % of available time spent on direct audit work • % of draft reports completed within 10 days of finishing fieldwork • Preparation of annual audit plan • Periodic reports on progress • Preparation of annual report and Annual Governance Statement 	95% 80% 80% By March G&AC meetings By May	n/a* 93% 75% March G&AC meetings May
<u>Quality of Service</u> <ul style="list-style-type: none"> • Average Client Satisfaction Score – 	70%	93%

* Figures not yet available for first quarter

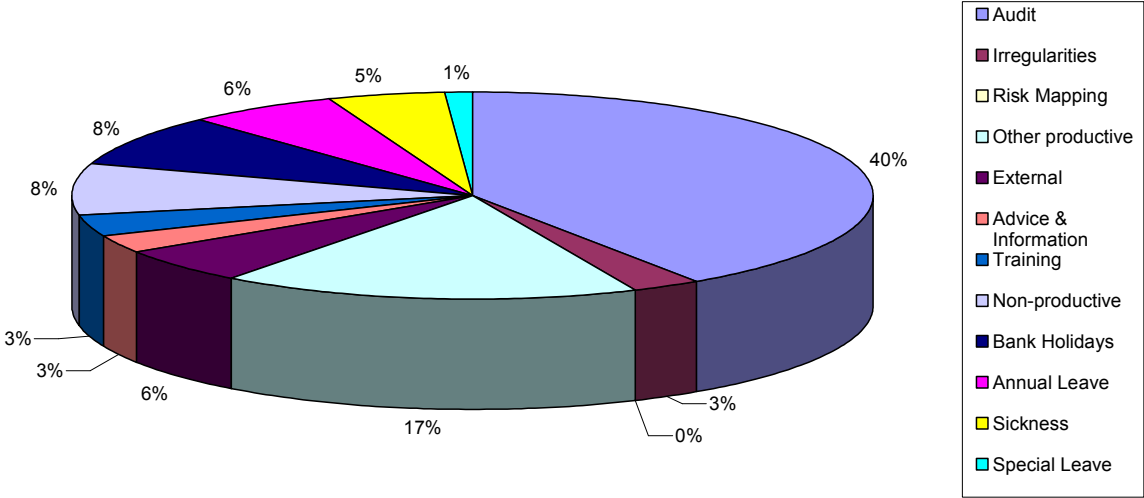
Team Structure

Number of staff 12 FTE

Qualified 5

Number of staff training 2

Breakdown of all time in Internal Audit
April 2009 to May 2009



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>

Summary of Irregularities completed in the period February to April 2009

Annex J

Ref	Directorate	Nature of Irregularity	Value if applicable	Details and Outcome
xx747	CMY	Theft and falsification of signature	£405.92, original amount was £9,000 £8,594.08 has been recovered.	<ul style="list-style-type: none"> ▪ A member of staff stole nearly £9,000 by falsifying an absent member of staff's signature on cheques. The member of staff was dismissed. The police were informed and the member of staff was prosecuted and received a community sentence. ▪ The member of staff was also ordered to repay KCC £8,594.08 which was the amount proved in court. ▪ Recommendations have been made by Internal Audit to improve controls.
xx780	KASS	Falsification of mileage claims	N/A	<ul style="list-style-type: none"> ▪ A member of staff was suspected of 'exaggerating' mileage claims. However, lack of details on claim forms has made it difficult to verify if claims are incorrect. ▪ The member of staff was asked to resubmit claims with sufficient detail to enable the claim to be substantiated. ▪ Advice has been provided by Internal Audit to the manager regarding the type of information that should be included on claims, who has also briefed all members of the team regarding details required on claims.

Ref	Directorate	Nature of Irregularity	Value if applicable	Details and Outcome
xx781	CED	Contractor engaged without full employment history	N/A	<ul style="list-style-type: none">▪ A contractor was engaged via an employment agency. It was later discovered that the contractor was employed by another local authority at the same time that they were working for KCC. The employee had been suspended from the other local authority pending an investigation.▪ The contractor was immediately released from their contract with KCC and they also resigned from their employing authority.▪ Internal Audit has provided advice to the agency regarding the types of checks that should be carried out prior to engagement.

This page is intentionally left blank