GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 24th July, 2013

10.30 am

Darent Room, Sessions House, County Hall, Maidstone

There will be a training session for Members of the Committee starting at 9.30 am in the Darent Room

Kent County Council
kent.gov.uk

AGENDA

GOVERNANCE AND AUDIT COMMITTEE

Wednesday, 24th July, 2013, at 10.30 am		Ask for:	**Andrew Tait**
Darent Room, Sessions House, County Hall, Maidstone		Telephone:	**01622 694342**

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

Membership (14)

Conservative (8)	Mr R L H Long, TD (Chairman), Miss S J Carey, Mr J A Davies, Mr A J King, MBE, Mr R A Marsh, Mr P J Oakford, Mr R J Parry and Mr J E Scholes
UKIP (3)	Mr H Birkby, Mr B Neaves and Mr T L Shonk
Labour (2)	Mr W Scobie and Mr D Smyth
Liberal Democrat (1):	Mr R H Bird

Webcasting Notice

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UNRESTRICTED ITEMS

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

1. Introduction/Webcasting
2. Substitutes
3. Declarations of Interest in items on the agenda for this meeting

4. Election of Vice-Chairman

5. Minutes (Pages 1 - 14)

   11 April 2013
   23 May 2013

6. Terms of Reference for Governance and Audit Committee Trading Activities Sub-Committee (formerly Sub-Group) (Pages 15 - 16)

7. Committee Work and Member Development Programme (Pages 17 - 22)

8. External Audit Update (Pages 23 - 38)

9. External Audit Findings Report 2012-13 (Pages 39 - 102)

10. External Audit Financial Resilience Report 2012-13 (Pages 103 - 136)

11. Draft Statement of Accounts 2012/13 (Pages 137 - 298)

12. Treasury Management Annual Review 2012-13 (Pages 299 - 314)

13. Debt Management (Pages 315 - 326)

14. Corporate Risk Register (Pages 327 - 350)

15. Schools Audit Annual Report (Pages 351 - 356)

16. Internal Audit Annual Report (Pages 357 - 400)

17. Review of Anti-Fraud and Corruption Strategy (Pages 401 - 414)

18. Anti-Fraud and Corruption Progress Report (Pages 415 - 418)

19. 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
(01622) 694002

Tuesday, 16 July 2013

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.

TERMS OF REFERENCE

Governance and Audit Committee

14 Members

Conservative: 8; UKIP: 3; Labour: 2; Liberal Democrat: 1.

The purpose of this Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and

2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

On behalf of the Council this Committee will ensure the following outcomes:

(a) Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.

(b) The Council's Corporate Governance framework meets recommended practice (currently set out in the CIPFA/SOLACE Good Governance Framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.

(c) The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.

(d) The appointment and remuneration of External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.

(e) The External Audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.

(f) The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.

(g) Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.

(h) Accounting policies are appropriately applied across the Council.

(i) The Council has a robust counter-fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.

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 Thursday, 11 April 2013.

PRESENT: Mr R L H Long, TD (Chairman), Mr R J Parry (Vice-Chairman), Mr A R Chell, Mr B R Cope, Mr K A Ferrin, MBE, Mr C Hibberd, Mr R A Marsh, Mr T Prater, Mr J Tansley and Mr R Tolputt

ALSO PRESENT: Mr J D Simmonds

OFFICERS: Mr A Wood (Corporate Director of Finance and Procurement), Mr N Vickers (Head of Financial Services), Miss E Feakins (Directorate Accountant), Mr G Wild (Director of Governance and Law), Mr D Whittle (Head of Policy and Strategic Relationships), Mr M Rolfe (Trading Standards Manager (East)), Ms N Major (Interim Head of Internal Audit) and Mr A Tait (Democratic Services Officer)

ALSO IN ATTENDANCE: Mr D Wells and Ms E Olive from Grant Thornton

UNRESTRICTED ITEMS

1. Minutes
(Item 4)

RESOLVED that:-

(a) the Minutes of the meeting of the Committee held on 19 December 2012 are correctly recorded and that they be signed by the Chairman; and

(b) the Minutes of the Trading Activities Sub-Group held on 1 March 2013 be noted.

2. Committee Work Programme
(Item 5)

(1) The Interim Head of Internal Audit proposed an updated forward committee work programme.

(2) RESOLVED that approval be given to the forward work programme to April 2014 to meet the Committee's Terms of Reference.

3. Member Development Programme
(Item 6)

(1) The Interim Head of Internal Audit provided an update on the introduction of the training programme for Members of the Committee following the elections in May 2013.

(2) In agreeing the content of the proposed training programme, Members asked the Interim Head of Internal Audit to review the timings, including the possibility of bringing some of the sessions forward to take place in the two months following the elections. .

(3) RESOLVED that:-

(a) subject to (2) above, agreement be given to the proposed training programme for 2013 – 14 which will be available to Members of the Committee and other Members.

(b) the delivery of training through the Financial Management Development Programme be supported.

4. Updated Financial Regulations
(Item 7)

(1) The Chief Accountant asked the Committee to note the updated financial regulations prior to their submission to the County Council for approval.

(2) RESOLVED that the proposed updated Financial Regulations (including the delegated authority matrix) be noted for assurance prior to their submission to the County Council.

5. Revised Accounting Policies
(Item 8)

(1) The Chief Accountant asked the Committee to note that there were no proposed revisions to accounting policies.

(2) RESOLVED that the report be noted.

6. Update on Savings Programme
(Item 9)

(1) The Corporate Director of Finance and Procurement gave an update report on the savings programme for 2013/14. None of the savings were rated as “Red” at this stage.

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

7. KCC Insurance Overview
(Item 10)

(1) The Head of Financial Services gave a summary of Insurance Activity. He said that the County Council’s insurance programme was extensive and designed to

provide increased financial control over the risks flowing from the diverse nature of activities undertaken to meet statutory duties, and to support business functions as well as income generating operations.

(2) Mr R A Marsh asked for his dissatisfaction with the outcome of a public liability claim involving one of his constituents to be recorded.

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

8. Treasury Management Quarterly Report
(Item 11)

(1) The Head of Financial Services gave an update on treasury management issues. He agreed that future reports would show a combined weighted interest rate in the KCC Deposits Table set out at Appendix 1 of the report.

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

9. Update on development of Management Guides
(Item 12)

(1) The Head of Policy and Strategic Relationships provided an annual update on the development of "Management Guides" and made recommendations regarding their ongoing assurance and governance.

(2) The Committee agreed that the Committee should only receive an annual report if there were any significant changes to approach or purpose of the Management Guides.

(3) RESOLVED to:-

(a) note that the content of any new management guides continues to be approved by the Cabinet Member for Business Strategy, Performance and Health Reform;

(b) note that any necessary revisions and updates to existing management guides are approved by the Head of Policy and Strategic Relationships without the need for approval by the Cabinet Member; and

(c) only receive a report for assurance annually if there are any significant changes to the approach or purpose of the management guides.

10. RIPA Report on Surveillance
(Item 13)

(1) The Trading Standards Manager (East Kent) outlined work undertaken by KCC officers on surveillance, the use of covert human intelligence sources and access to telecommunications governed by the Regulation of Investigatory Powers Act (RIPA) during the 2012/13 business year.

(2) Members of the Committee indicated that they wished future reports to give details of the grounds for seeking to use RIPA powers as well as the outcomes. It

was also considered desirable if the County Council were to compile its own table of use of RIPA powers by local authority, per head of population.

(3) RESOLVED that the use of powers under RIPA during the 2012/13 business year be noted for assurance.

11. Annual Review of the Code of Corporate Governance
(Item 14)

(1) The Director of Governance and Law reported the annual review of the Code of Corporate Governance and asked the Committee to endorse proposed amendments for submission to the County Council for consideration and final approval.

(2) The Committee agreed that further reports on the Code of Corporate Governance would only be submitted if there were substantial changes to be reported.

(3) RESOLVED that:-

(a) the annual review be noted in accordance of paragraph 6 of the Code of Corporate Governance;

(b) endorsement be given to the proposed amendment to paragraph 6 of the Code of Corporate Governance to read: “the Council’s governance arrangements are reviewed annually. If there are any amendments recommended as a result of this review, these will be reported to the Governance and Audit Committee and the County Council for approval”; and

(c) endorsement be given to the proposed amendments to the Code of Corporate Governance set out in paragraphs 2 (3) and 2 (4) of the report for submission to the County Council for consideration and final approval.

12. Trading Activities Sub-Group Terms of Reference
(Item 15)

(1) The Interim Head of Internal Audit reported a review of the existing Terms of Reference for the Committee’s Trading Activities Sub-Group. She proposed a number of revisions. These were agreed except for the membership, which would be considered by the Committee at its next meeting.

(2) On being put to the vote, the proposed revised terms of Reference (as amended in (1) above) were agreed by 9 votes to1.

(3) RESOLVED that approval be given to the proposed revised Terms of Reference for the Committee’s Trading Activities Sub-Group as appended to these Minutes.

13. Internal Audit Annual Audit Plan 2013-14
(Item 16)

(1) The Interim Head of Internal Audit reported on the proposed Internal Audit Plan for 2013/14. She explained the new arrangements for auditing Commercial Services (Kent) Ltd and Commercial Services Trading Ltd.

(2) RESOLVED that agreement be given to the proposed Internal Audit Plan for 2013/14 as appended to the report.

14. Internal Audit Progress Report
(Item 17)

(1) The Interim Head of Internal Audit summarised the outcomes of Internal Audit activity since the Committee's last meeting in December 2012. She reported that progress against the Audit Plan for 2012/13 now stood at 93%.

(2) RESOLVED to note:-

(a) progress against the 2012/13 Audit Plan and proposed amendments; and

(b) the assurance provided in relation to the County Council's control environment as a result of the outcome of Internal Audit work completed to date.

15. External Audit Update March 2013
(Item 18)

(1) Ms Elizabeth Olive from Grant Thornton UK LLP provided an update of recent audit activities by the external auditor, including progress in 2012/13.

(2) RESOLVED that the report be noted.

16. Grant Thornton: Certification of claims and returns - annual report
(Item 19)

(1) Ms Elizabeth Olive from Grant Thornton LLP summarised the external auditor's work on the certification of funding from government grant-paying departments in 2011/12.

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

17. Grant Thornton Audit Plans Year Ended 2013 - KCC and Kent Superannuation Fund
(Item 20)

(1) Mr Darren Wells from Grant Thornton LLP set out the external auditor's proposed work to enable them to give an audit opinion on the County Council's 2012/13 financial statements including the Kent Superannuation Fund. This included the audit approach and an identification of risks that impacted on the work the

proposed. He indicated that he was confident that the necessary audit could be carried out based on the programme outlined.

(2) RESOLVED that:-

(a) the outcomes of Grant Thornton's updated risk assessment be noted with approval; and

(b) approval be given to the Audit Plans for Kent County Council and the Kent Superannuation Fund for 2012/13.

18. External Audit Fee Letter 2013/14
(Item 21)

(1) The Interim Head of Internal Audit introduced the report which presented the planned external audit fee for the County Council for 2013/14.

(2) RESOLVED that approval be given to the fees proposed in the fee letter.

19. Fraud, law and regulations and going concern considerations
(Item 22)

(1) The Corporate Director of Finance and Procurement summarised the County Council's management's responses to questions set out in a questionnaire from Grant Thornton on the County Council's processes in relation to fraud, law and regulations and going concern risks.

(2) Members of the Committee noted that that whistleblower tips were not usually specifically identified as such, but were incorporated in the general quarterly reporting of fraud referrals to Committee. The Committee agreed that this was the appropriate approach.

(3) Members asked if they could have complete assurance in relation to compliance with the law since April 2012 and the adequacy and effectiveness of internal controls. The Corporate Director of Finance and Procurement explained that as audits were not performed over all areas of the Council every year, 100% assurance over controls or compliance with legislation was unfortunately not possible. However, the questions could be answered in general terms based on the assurances received from internal audits and annual governance statements.

(4) RESOLVED that approval be given to the management responses to Grant Thornton's questions.

20. Anti-Fraud and Corruption Progress Report
(Item 23)

(1) The Interim Head of Internal Audit gave a summary of progress of anti-fraud and corruption activity as well as the outcome of investigations concluded since the last meeting of the Committee in December 2012.

(2) Members requested that the tables setting out irregularities by type and source should in future include the actual number of cases as well as the percentage figures.

(3) RESOLVED that the progress of anti-fraud and corruption activity be noted together with the assurance provided in relation to anti-fraud culture and fraud prevention/investigation activity.

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APPENDIX TO MINUTES
(Minute 12 refers)

Governance and Audit Committee Trading Activities Sub Group

Terms of Reference (as agreed by the Governance and Audit Committee on 11 April 2013.)

The Governance and Audit Committee established this sub group in September 2008 to specifically focus upon Kent County Council's (KCC) Trading Activities.

Overarching Purpose

The purpose of the Governance and Audit Committee Trading Activities Sub Group is to:

1. Ensure that there are effective governance arrangements in place for Kent County Council's limited companies and trading vehicles (as defined in the Protocol relating to companies in which KCC has an interest); and

2. Provide oversight of KCC's companies and other trading vehicles to ensure that these are run properly and transparently.

Objectives of the Sub Group

On behalf of the Governance and Audit Committee, the Trading Activities Sub Group will ensure the following outcomes:

1. Companies and other trading vehicles established by the Council have robust, transparent and fully accountable audit and governance arrangements in place and comply with the protocol relating to companies in which KCC has an interest;

2. The best interests of the Council are safeguarded within the governance and management structures of companies and other trading vehicles established by the Council;

3. Public accountability to residents and businesses in Kent is maintained as openly as possible (subject to commercial confidentiality) in the exercise of the sub group's function for oversight and performance management of companies and trading activities established by the Council;

4. Matters that the sub group considers to be of concern relating to the companies and other trading vehicles established by the Council that would affect the interests of the Council, are referred to the Governance and Audit Committee for their consideration; and

5. The Council has visibility of and can protect its interests in arrangements entered into by the Council's companies and other

trading vehicles where these have the potential to affect the risk profile or financial affairs of the Council.

Responsibilities

1. Monitor and review the financial performance, reporting and governance arrangements of all companies and other trading vehicles owned in whole or in part or controlled by KCC;

2. Monitor and review adherence to the appropriate legal, regulatory and accounting frameworks governing local authority trading activities.

3. Monitor and review trading and commercial activities being undertaken by the Council to ensure that they have the right structure;

4. Receive and review the annual statutory financial accounts of any KCC limited companies and financial statements for other trading vehicles and to consider corrective action where appropriate;

5. Review the dividend policies adopted by KCC companies; and

6. Oversee the establishment of new limited companies, subsidiary companies and other trading vehicles through an examination of the decision making process followed (business case, financial and legal advice) before the company commences trading and make governance related recommendations to the Governance and Audit Committee and responsible Cabinet Member where appropriate.

Membership

To be determined by the Committee in July 2013.

Reporting

The minutes of the Governance and Audit Committee Trading Activities Sub Group will be reported to the Governance and Audit Committee after each meeting.

Frequency

Bi-annually

GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 23 May 2013.

PRESENT: Mr R H Bird, Mr H Birkby, Miss S J Carey, Mr J Davies, Mr A J King, MBE, Mr R L H Long, TD, Mr R A Marsh, Mr B Neaves, Mr P J Oakford, Mr R J Parry, Mr J E Scholes, Mr W Scobie, Mr T L Shonk and Mr D Smyth

OFFICERS: Mr P Sass (Head of Democratic Services)

UNRESTRICTED ITEMS

21. Membership
(Item 1)

The Committee noted its membership as set out above.

22. Election of Chairman
(Item 3)

RESOLVED that Mr R L H Long be elected Chairman of the Committee.

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By:	Richard Long – Chairman of the Governance and Audit Committee Geoff Wild – Director of Governance and Law
To:	Governance and Audit Committee – 24 July 2013
Subject:	**Terms of Reference for Governance and Audit Committee Trading Activities Sub- Committee (formerly Sub-Group)**
Classification:	Unrestricted

Summary: This report recommends that there should be three Members on the Governance and Audit Committee Trading Activities Sub Committee.

FOR DECISION

Introduction

1. The original terms of reference for the Trading Activities Sub Committee were approved by the Governance and Audit Committee in June 2009. The Committee considered a report on 25 April 2013 which recommended changes to the terms of reference.

2. The Committee agreed to the proposed changes with the exception of the number of Members who should sit on the Sub-Committee. The agreed Terms of Reference are set out in the Appendix to the Minutes of the Committee meeting on 25 April (Page 11 of these agenda papers).

The proposed membership

3. The Sub-Committee has traditionally consisted of three Members. These are the Chairman of the Governance and Audit Committee, 1 representative from the Administration and 1 Opposition representative. This has provided the opportunity for detailed discussion which has, in turn, enabled it to effectively carry out the work that has been assigned to it.

4. In considering the optimum number of Members needed to carry out the Sub-Committee's functions, it is necessary to balance the wish to be inclusive against having an over-cumbersome membership, whilst bearing in mind the limited and technical nature of the Sub-Committee's remit.

5. If each of the political Groups represented on the Committee (including the Independent Member) were to become Members of the Sub-Committee, it would consist of 9 Members (well over half the Committee's entire membership).

6. As the Sub-Committee has been successful with a membership of three, it is proposed that this arrangement should continue. The membership would therefore consist of the Chairman of this Committee, 1 Conservative and 1 UKIP (as the main Opposition Group) representative.

7. It is equally important to ensure that all members of this Committee are given the opportunity to attend the Sub-Committee meetings if they wish to do so. It is therefore proposed that all members of the Committee are informed whenever a meeting is arranged and that they are also sent a link to the full agenda papers and a hard copy on request.

Recommendations

8. The Committee is recommended to AGREE that the membership of the Trading Activities Sub-Committee will consist of 2 Conservative and 1 UKIP Member of the Committee and that all other Committee members are informed whenever a meeting is arranged and provided with a link to the full agenda papers and a hard copy on request.

Geoff Wild
Director of Governance and Law
Tel No: 01622 694302
e-mail: geoff.wild@kent.gov.uk

Background Documents: None

By:	Richard Long, Chairman of Governance and Audit Committee Neeta Major, Head of Internal Audit
To:	Governance and Audit Committee – 24 July 2013
Subject:	**COMMITTEE WORK & MEMBER DEVELOPMENT PROGRAMME**
Classification:	Unrestricted

Summary: This report provides an update on the forward Committee Work and Member Development programme.

FOR DECISION

Introduction and background

1. This is a standing item on each agenda to allow Members to review the plan for the year ahead, and provide Members with the opportunity to identify any additional items that they would wish to include.
2. In addition on 11 April 2013, the Committee agreed a training programme in principle but asked for the reconsideration of the timing of sessions post election due to the possibility that there may be several new Members on the Committee.

Current Work Programme

1. Appendix 1 shows the latest programme of work for the Committee, up to July 2014. The content of the programme is matched to the Committee Terms of Reference and aims to provide at least the minimum coverage necessary to meet the responsibilities set out. This doesn't preclude Members asking for additional items to be added during the course of the year.
2. The programme reflects requests made from previous Committee members for additional reports on specific items of interest.

Member Development Programme

3. Members' training is important to ensure that the Governance and Audit Committee remains effective and delivers against its terms of reference.
4. In November 2010, it was agreed that the best time for formal training would be immediately prior to the start of the formal meeting and that these sessions could be open to all Members. The training could be recorded and added to any induction material given to new committee members or used as a refresher if required by existing Members.
5. In addition, Corporate Finance delivers a learning and development programme on financial management for Members and senior officers that will continue in 2013 -14. This includes sessions on the role of internal audit and fraud

awareness refresher training. The following programme has been released by Corporate Finance.

Description	Timing
Introduction to Finance and how Local Government is funded	July 2013
Business intelligence, Performance and Risk	July 2013
Internal control and its role in preventing and detecting fraud and other risk exposures	September 2013
Interpreting financial information	October 2013
How to scrutinise the budget	October 2013
Treasury Management	October 2013
Kent Pension Fund	November 2013

6. In April 2013 the Committee agreed that some additional briefings would be advisable in the following areas:

- The role and responsibilities of an effective audit committee
- Financial statements – what do they tell us?
- The role and responsibilities of the external auditors

7. Committee Members requested that the timing of these additional briefings be reviewed in light of the elections and the Committee's work programme. As the financial statements are presented to the July 2013 meeting, it was considered necessary to provide the financial statements briefing prior to this meeting.

8. There was also a request that training on the role of the audit committee be provided prior to the first meeting post election. To ensure that the training was digestible, an introductory overview was provided before this meeting. This will be followed up by a more detailed session prior to the September meeting.

9. In addition, Grant Thornton has agreed to provide a briefing about the role and responsibilities of the external auditors before the December 2013 meeting. Members may also ask for additional training if they require.

Recommendations

10. It is recommended that Members approve the forward work and Member development programme.

Appendices Committee work programme

Neeta Major, Head of Internal Audit (X4664)

Appendix 1

Category / Item	Owner	Jul-13	Sep-13	Dec-13	Apr-14	Jul 14
Secretariat						
Minutes of last meeting	AT	✓	✓	✓	✓	✓
Work Programme	NM	✓	✓	✓	✓	✓
Member Development Programme	NM	✓	✓	✓	✓	✓
Risk Management and Internal Control						
Corporate Risk Register	RH	✓		✓		✓
Review of the Risk Management Strategy, Policy and Programme	RH			✓		
Report on Insurance and Risk Activity	NV				✓	
Treasury Management quarterly report/six monthly review	NV		✓	✓	✓	
Treasury Management Annual Report	NV	✓				✓
Ombudsman Complaints	GW		✓			
Annual Complaints Report	DC		✓			
Update on Savings programme	AW		✓		✓	
Annual report on 'surveillance' activities carried out by KCC	MR				✓	
Corporate Governance						
Progress update on Change to Keep Succeeding	AB	**Ad hoc as requested**				
Update on development of Management Guides	DW	**If significant changes to the approach or purpose of the management guides**				
Annual review of Terms of Reference of G&A	NM		✓			
Debt Recovery	NV	✓		✓		✓
Annual review of the Council's Code of Corporate Governance	GW	**If substantial changes to Code**				
Review of Bribery Act Policy	GW			✓		

Appendix 1

Category / Item	Owner	Jul-13	Sep-13	Dec-13	Apr-14	Jul 14
Internal Audit						
Internal Audit Progress Report	NM		✓	✓	✓	
Schools Audit Annual Report	NM					✓
Internal Audit Annual Report (including review of Charter)	NM	✓				✓
Internal Audit Strategy and Annual Plan	NM				✓	
External Audit						
External Audit Update	NM	✓	✓	✓	✓	✓
External Audit Governance Report	NM	✓				✓
External Audit Annual Audit Letter	NM			✓		
External Audit Certification of Claims and Returns Report	NM				✓	
Effectiveness of Internal and External Audit Liaison	NM			✓		
External Audit Plan	NM				✓	
External Audit Pension Fund Plan	NM				✓	
External Audit Fee letter	NM				✓	
External Audit Fraud, Law & Regulations & Going Concern Considerations	AW				✓	
Financial Reporting						
Statement of Accounts & Annual Governance Statement	AW	✓				✓
Revised Accounting Policies	CH				✓	
Review of Financial Regulations	EF				✓	
Fraud						
Review of the Anti-fraud and anti-corruption Strategy	NM	✓				✓
Anti-Fraud and Corruption Progress Report	NM	✓	✓	✓	✓	✓

Appendix 1

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By:	John Simmonds, Cabinet Member for Finance & Business Support Andy Wood, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2013
Subject:	**External Audit Update July 2013**
Classification:	Unrestricted

Summary: This paper provides recent updates and information from the External Auditor, Grant Thornton UK LLP

FOR ASSURANCE

Introduction and background

1. In order that the Governance and Audit Committee is kept up to date with the work of Grant Thornton UK LLP, progress reports are written by the external auditor as appropriate.

2. The attached report covers the following areas:
   - Progress over 12/13
   - Emerging issues and developments

Recommendation

3. Members are asked to note the report.

Neeta Major
Head of Internal Audit
Ext: 4664

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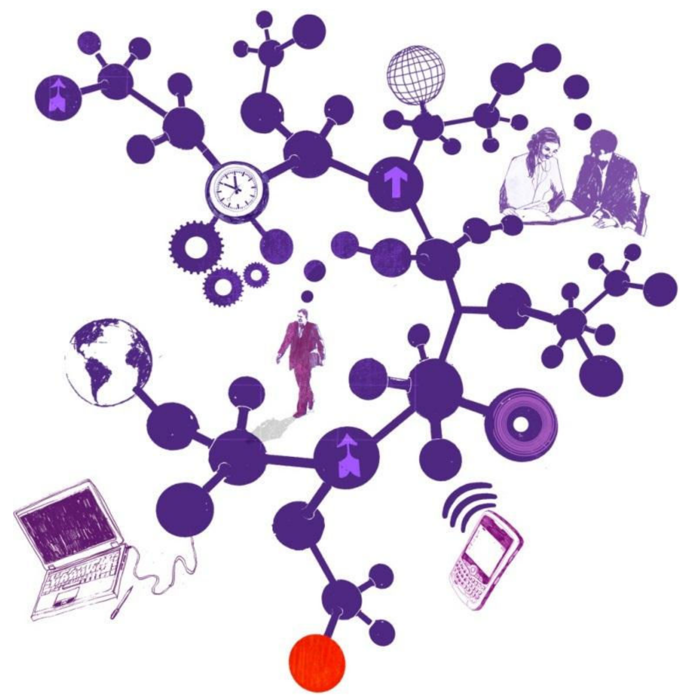
Governance and Audit Committee Update for Kent County Council

Year ended 31 March 2013

1 July 2013



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Contents

Introduction

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

- a summary of emerging national issues and developments that may be relevant to you as a Council
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance and Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications – 'Local Government Governance Review 2013', 'Towards a tipping point?', 'The migration of public services', 'The developing internal audit agenda', 'Preparing for the future', and 'Surviving the storm: how resilient are local authorities?'.

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

Darren Wells Engagement Lead T 01293 554130 M 07880 456152 darren.j.wells@uk.gt.com

Elizabeth Olive Audit Manager T 0207 728 3329 M 07880 456191 elizabeth.l.olive@uk.gt.com

Progress at 1 July 2013

Work	Planned date	Complete?	Comments
2012-13 Audit Fee Letter We prepare a fee letter annually setting out the audit and grants certification work fee for the year.	30 November 2012	Yes	We issued the 2012/13 audit fee letter to management on 12 November 2012 and presented it to this committee in December 2012.
2012-13 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2012-13 financial statements.	April 2013	Yes	We have agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts with officers. Both plans are included as separate items on the April committee meeting agenda.
Interim accounts audit Our interim fieldwork visit will include the following: • updated review of the Council's control environment • update understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion.	February and April 2013	In progress	The results of the interim work completed up to February are set out in our accounts audit plan. All interim work was completed before the accounts audit began. There are no significant weaknesses identified in the control environment in the work undertaken at the interim audit visits. Our ICT risk assessment audit identified four deficiencies in the internal control arrangements which have been reported to and agreed with management. However, none of these materially impact on the 12/13 accounts so do not require reporting to this committee. We have monthly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There are no issues arising that would impact on our audit opinion at this date.

Progress at 1 July 2013

Work	Planned date	Complete?	Comments
2012-13 final accounts audit Including: • audit of the 2012-13 financial statements; • proposed opinion on the Council's accounts; and • proposed Value for Money conclusion.	Accounts audit: 17 June - 5 July 2013 Opinion and VFM conclusion: end July 2013	Yes	We have monthly meetings with the Head of Financial Management and Chief Accountant, and attend the monthly closedown champions meetings to ensure that potential accounting issues are identified early. We received the 2012-13 accounts for audit on 14 June 2013 and started the onsite audit visit on 17 June. Our findings from the audit are set out in the Audit Findings Report which is included as a separate agenda item for this committee meeting.
Value for Money (VfM) conclusion The scope of our work to inform the 2012/13 VfM conclusion is based on the reporting criteria specified by the Audit Commission. The Council has proper arrangements in place for: • securing financial resilience • challenging how it secures economy, efficiency and effectiveness in its use of resources. Our review will focus on arrangements relating to financial governance, strategic financial planning and financial control.	June 2013	Yes	We have completed our VfM planning. The specific areas we plan to review are set out in our audit plan. The detailed VfM work, including the financial resilience review, has been completed in June 2013. We have reported our findings in a separate Financial Resilience report, alongside the summary position in our Audit Findings report, which are both included as agenda items for this committee meeting.

Progress at 1 July 2013

Work	Planned date	Complete?	Comments
Whole of Government Accounts (WGA) We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.	August 2013	No	We will undertake the audit of the WGA return once the accounts audit is complete.
Other areas of work – grants certification We will be required to certify the following grants and returns for the Council in 2012/13: • Teachers' Pensions Return	To be confirmed when Certification Instructions are released	No	We will liaise with officers to agree dates for audit certification once claims are submitted for audit.

Emerging issues and developments

Accounting and audit issues

LAAP Bulletin 96: Closure of the 2012/13 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued LAAP Bulletin 96. The bulletin provides further guidance and clarification to complement CIPFA's 2012/13 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- a reminder that authorities should tailor CIPFA's example financial statements to meet their own reporting needs in order to give a true and fair view of their own financial position and performance
- the need for billing and precepting authorities to disclose their share of non-domestic rate appeals liabilities that transferred to them on 1 April 2013
- the revised disclosure format for dedicated schools grant
- accounting for carbon reduction commitment (CRC) energy efficiency scheme assets
- accounting for the transfer of public health reform in 2013/14.

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Accounting for Schools in Local Authorities

CIPFA/LASAAC has issued a technical alert on accounting for schools. There are no changes planned for the 2013/14 Code. The alert refers to the issues that were consulted on for the 2013/14 Code and draws attention to the need for CIPFA/LASAAC to consider the impact of IFRS 10: ‘Consolidated Financial Statements’ on school accounting which is due to be adopted in the 2014/15 Code.

The technical alert recommends ‘local authorities set out clearly in their 2012/13 and 2013/14 financial statements, in the summary of significant accounting policies, their approach to accounting for maintained schools’ income, expenditure, assets, liabilities and reserves. These accounting policies need to be consistently applied throughout the complete set of financial statements’.

Emerging issues and developments

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2013/14

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2013/14. The main changes to the Code include:

- amendments for the requirements of the localisation of business rates in England
- amendments to how 'other comprehensive income' is presented in the Comprehensive Income and Expenditure Statement. These changes follow the June 2011 amendments to IAS 1 Presentation of Financial Statements.
- amendments to how authorities should account for the cost of employees. This is as a result of the June 2011 amendments to IAS 19 Employee Benefits and include amendments to the classification, recognition, measurement and disclosure of local authority pension costs. This is accounted for as a prior period adjustment which means that the figures for previous years will need to be restated.
- clarifications and improvements of the Code as a result of the CIPFA/LASAAC post-implementation review of IFRS on issues such as:
  - the recognition and measurement of property, plant and equipment – in particular, paragraph 4.1.2.35 of the Code now requires items within a class of property, plant and equipment to be revalued simultaneously. The Code does permit a class of assets to be revalued on a rolling basis provided the revaluation is completed within a short period and provided the revaluations are kept up to date.
  - leases and lease-type arrangements (for example where lease rentals are charged at peppercorn rents)
  - service concession (PFI/PPP) arrangements in relation to assets under construction and intangible assets
  - the recognition of non-current assets held for sale
- amendments relating to deferred tax which may be applicable to authorities with group accounts. These follow amendments to IAS 12 Income Taxes issued in December 2010.

The Code also notes that guidance on the adoption of IFRS 13 Fair Value accounting and on accounting for schools has been deferred to the 2014/15 Code.

Challenge questions:

- Is your Chief Accountant aware of the changes to the 2013/14 Code and assessed the potential impact?

Emerging issues and developments

Accounting and audit issues

Internal audit – practice case studies

The NAO and the Institute of Internal Auditors have released a set of case studies, available on the NAO website, illustrating some of the key principles of effective internal auditing, taken from a range of public and private sector organisations (including British Telecom, Department for Work and Pensions, EDF). These cover the following areas:

- applying internal audit resources
- scope of internal audit
- auditing projects
- the relationship with the audit committee
- risk-based internal audit
- evaluating internal audit

Examples of the practical advice these case studies provide are:

- 'ensure that the internal audit function has the right development practices and the right mix of people'
- 'internal audit must check its own performance'
- 'look at the range and depth of assurance that is being provided to management from other assurance providers within the organisation: this will reduce the duplication and free up resources to provide deeper assurance in other areas'
- 'make sure that internal audit's work is aligned to management's view of risk: the function may be focussing on the wrong issues if it does not understand management's risk priorities'
- 'review whether senior management and the business share the same view of risk – highlight where differences occur to ensure that the right risks and controls are targeted in the audit plan'
- 'consider carrying out a benchmarking review with a similar sized organisation in the same industry sector to compare and contrast approaches to internal audit and resourcing'

Challenge question:

- How can you drive more organisational value from internal audit?

Emerging issues and developments

Grant Thornton

Use of Outsourced IT Services

Over the past few years, there has been an increasing move to outsourcing IT services to third parties within local government. This has accelerated over the last year as a result of need to drive efficiencies across the public sector.

Two recent incidents have highlighted the need to carry out proper due diligence and ensure the correct contractual and technical provisions are in place when signing agreements with third parties:

- a major IT service provider, who offered a wide range of services including Network, Communications and Data Centre Management, recently went into administration. This created significant uncertainty for their clients in terms of on-going business as usual requirements as well as access to data. At one point clients were asked to make additional payments in order to gain access to their critical data.
- a large NHS Trust had a failure of its hard disk drive containing its financial data. On contacting the supplier responsible for taking back ups, it became evident that no data back ups had been taken in the preceding 6 months and therefore the client had lost 6 months of data. As a result, the system had to be restored to the last back up date and the data recreated. This was a time consuming and expensive exercise, and has impacted on the financial audit work where additional procedures will have to be performed.

Both of these incidents highlight the risks involved when outsourcing services. Organisations with critical data who run their own data centres would have normally considered the risks associated with a failure of an IT service (or an entire data centre) and would have taken steps to mitigate these risks. Companies who outsource the performance of key services still retain responsibility for their operating and regulatory requirements, and for ensuring that the control environments supporting their business processes are operating effectively, regardless of who is managing them.

Although this is not directly relevant to the Council it has been included in the report for information. If you do have any queries, please talk to your engagement manager to see how Grant Thornton could help.

Emerging issues and developments

Local government guidance

Governance statements

The National Audit Office has published 'Fact Sheet: Governance Statements: good practice observations from our audits' providing: insight and commentary on the first year of Governance Statement reporting observations on good practice “challenge questions” for those whose role it is to oversee and scrutinise an organisation’s Governance Statement.

Challenge questions:

- How do you plan to make your Annual Governance Statement be more transparent and relevant to your authority?
- Have you used the challenge questions in the fact sheet to help inform your review of the Annual Governance Statement?

Openness and transparency on personal interests - A guide for councillors

In March, DCLG published 'Openness and transparency on personal interests - A guide for councillors'.

This provides guidance to councillors about how to be open and transparent about their personal interests now that new standards arrangements have been introduced by the Localism Act 2011.

Challenge question:

- Are your arrangements to improve awareness of openness and transparency requirements for councillors appropriate?

Emerging issues and developments

Local government guidance

Public Health Local Authorities: Other changes to secondary legislation in force from 1 April

The Department of Health has published guidance on changes to secondary legislation from the changes to public health functions affecting local authorities. Some of the changes are:

- local authorities, as commissioners of health services, will now be able to make direct payments under pilot schemes for personal health budgets (National Health Service (Direct Payments) Regulations 2010)
- local authorities must charge overseas visitors for relevant services where no exemption from charge applies (National Health Service (Charges to Overseas Visitors) Regulations 2011)
- Clinical Commissioning Group and the NHS Commissioning Board are to be notified of the death of a child in a children's home (Children's Homes Regulations 2001)
- Clinical Commissioning Group and NHS Commissioning Board are to notified of the death of a child accommodated in a residential family centre (Residential Family Centres Regulations 2002)
- local authorities exercising public health functions are under the same obligation as health service bodies to notify the Care Quality Commission of the death of a service user (the Care Quality Commission (Registration) Regulations 2009)
- the death of a child placed in foster care should be reported now to the Clinical Commissioning Group and NHS Commissioning Board (Fostering Services (England) Regulations 2011)
- a local authority body is to instruct an independent mental capacity advocate in certain circumstances where it proposes to provide, or to secure the provision of, serious medical treatment to a person who lacks capacity to consent to the treatment (Mental Capacity Act 2005 (Independent Mental Capacity Advocates) (General) Regulations)
- regulations specify the sets of depersonalised information that relevant authorities (which include local authorities) have a duty to disclose to each other if held by them (Crime and Disorder (Prescribed Information) Regulations)

Challenge questions:

- Is appropriate action in hand to implement the regulations?

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By:	John Simmonds, Cabinet Member for Finance & Business Support Andy Woods, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2013
Subject:	**External Audit - Annual Findings Reports 2012/13**
Classification:	Unrestricted

Summary: This paper sets the context to the external Auditor's Annual Audit Findings Report

FOR DECISION

Introduction and background

1. Grant Thornton, as External Auditor to the Council, is required to report to the Committee the findings from the audit of the 2012/13 financial statements.

2. For 2012/13, there are two separate Audit Findings Reports for Kent County Council and Kent Superannuation Fund. The reports include the key messages arising from the audit work undertaken to address the risks identified in the Audit Plans presented to this Committee in April 2013.

3. The report for Kent County Council also includes the results of the work undertaken to assess the Council's arrangements to secure value for money.

Process

4. The 2012/13 financial statements (except for the Annual Governance Statement) were provided to Grant Thornton for audit on 14 June 2013. The audit of the financial statements started on 17 June 2013 and despite the pressures on the audit team and officers to respond quickly to queries the work was substantially complete by 5 July 2013.

5. Members will have the opportunity to ask questions about the audits and reports to help inform their decision before formally approving the 2012/13 financial statements.

Recommendations

6. Members of the Governance and Audit Committee are asked to:

   - take note of the adjustments to the accounts of the Council and the Superannuation Fund included in the reports;
   - agree the management response to the action plans (appendix A).

Neeta Major
Head of Internal Audit (Ext: 4664)

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The Audit Findings
for Kent County Council

Year ended 31 March 2013

5 July 2013

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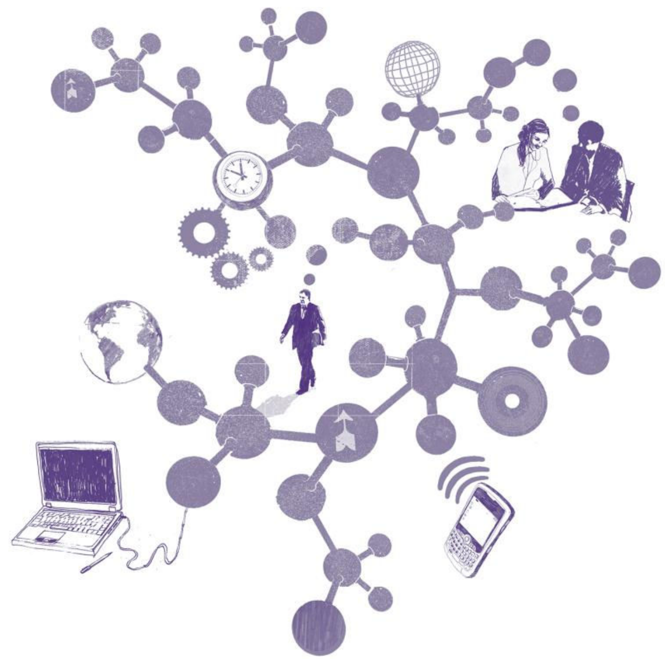

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Kent County Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2013.

Our audit is substantially complete. subject to finalising our work in the following areas:

- a review of the final version of the statement of accounts
- receipt of investment confirmations
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts.

We received draft financial statements on 14 June 2013 and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

The key messages arising from our audit of the Council's financial statements are:

- the Council produced good quality draft financial statements, supported by working papers with sufficient detail to enable us to carry out our accounts audit in three weeks
- a small number of disclosure amendments have been made to the financial statements, all of which were agreed by management.
- we have worked with the Council to 'declutter' the statement of accounts to make it more readable to stakeholders whilst ensuring compliance with CIPFA's Code of Practice.

Further details are set out in section 2 of this report.

Value for money (VFM) conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further details of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)
A WGA return is required to be completed and audited by 5th October. We will complete our work in accordance with the national timetable. The audit cannot be formally certified as complete until this work is finalised.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness.

However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. We did not identify any significant weaknesses in control.

We draw your attention in particular to control issues identified in relation to:

- journal testing identified weaknesses in the control arrangements for authorising and posting journals in the year and as part of the accounts closedown process, and
- bank reconciliations by schools were completed in the final week of March whereas the year end bank position should reconciled as at 31 March.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Corporate Director of Finance and Procurement.

We have made a number of recommendations which have been discussed and agreed with the Corporate Director of Finance and Procurement and the finance team (Appendix A).

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 11 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any substantive changes to our Audit Plan as previously communicated to you on 11 April 2013. In one or two instances, we altered the planned testing to reflect circumstances.

Employee remuneration audit risks:

- One of the employee remuneration risks identified at the planning stage was documented as remuneration expenses. The risk for Kent County Council has been expanded at the accounts planning stage to be remuneration accruals, ie, the monthly pay of the employee in the 2012/13 year. Work planned to mitigate the risk identified at the planning stage of the audit and reported in our Audit Plan was updated to include testing to confirm that 12 payroll journals were in Oracle and the 2012/13 financial statements.
- Work planned in relation to the employee remuneration at schools included a predictive analytical review. This work has not been undertaken as sufficient assurance over the expenditure at schools, which includes the staff costs, has been obtained through attribute sample testing of the expenditure.
- Work planned in relation to the employee remuneration tax obligations included review of the HMRC returns. This work has not been undertaken as sufficient assurance over Council's tax obligations has been obtained through attribute sample testing of 60 payroll records and confirmation that the tax parameters were correctly set up in respect of the 2012/13 tax year.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1. Page 49	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • substantive testing on material revenue streams	Our audit work has not identified any material misstatement of revenue in the 2012/13 financial year. Our testing did however identify £9.3m grant income incorrectly recorded within net cost of services. It should be shown as income below 'Cost of Services' within 'Taxation and Non Specific Grant Income'. We set out our finding in detail in the adjustments section of the report.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions]	Our audit work has not identified any evidence of management override of controls. In particular our review of journal controls and testing of journal entries did not identify any significant issues. However, we did identify opportunities to strengthen controls over journals and have set out our findings in the Internal Control section of this report. We set out on page 12 of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested operating expenses including a sample of 60 operating expenditure items and 60 school returns to confirm expenditure is correctly recorded in the 2012/13 accounts	Our audit work has not identified any significant issues in relation to the risk identified. However, we have identified an area for improvement in relation to the timing of year end bank reconciliations performed by the schools. Further details are set out in the Internal Controls section of the report.
Employee remuneration	Payroll tax obligations understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess if those controls are designed effectively • sample testing of 60 employees to payroll and HR records and 60 expenditure items by schools	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accruals understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess if those controls are designed effectively • sample testing of 60 employees to payroll and HR records • testing to confirm the ledger and accounts include the 12 payroll journals for the 2012/13 year • review of schools compliance team visits (annual audit report to the Governance & Audit Committee in July 2013)	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed the reconciliation of the PPE note to the new asset registers • Tested significant in year movements and the year end balance to ensure disclosure and accounting treatment are correct	Our audit work has not identified any significant issues in relation to the risk identified. As part of the asset register refresh during the year, the Council identified capital expenditure totalling £14.8m in Assets Under Construction (AUC) as at 1 April 2012 that related to spend in prior years on assets that the Council does not own or on schools that have transferred to Academy status. The Council incorrectly treated this as Revenue Expenditure Funded from Capital Under Statute in 2012/13. The correct treatment would be to account for this as a loss on disposal. Further details are set out in the Unadjusted misstatements section of the report.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Testing of revaluations in year • Reliance on an expert procedures, including reviewing revaluation trends against the auditors' expert	Our audit work has not identified any significant issues in relation to the risk identified. However, the depreciation and impairment charge in 2012/13 disclosed in note 10 and note 15 does not agree. The Council has accounted for an impairment in assets of £31.4m directly to the CIES so this amount is not shown in note 15. The impairment mainly relates to spend in prior years on AUC of £23.4m and capital spend incurred in 2012/13 of £4.3m on assets that have been revalued in year. The remaining £3.8m relates to spend on assets that have not been revalued. The correct disclosure in the accounts is to add the capital spend to the Cost or Valuation section of the note and then remove the spend as an impairment in the Accumulated Depreciation and Impairment section. The Council has chosen not to account for it on this basis as this would require entries to the asset register that do not affect the net book value of the assets or Balance Sheet. An explanation of the Council's accounting treatment has been included in note 10.

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Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• The Council's main source of income is central government grants and council tax. Grant income is recognised in the Comprehensive Income and Expenditure Statement when the Council has reasonable assurance that it will comply with the grant conditions and that amounts will be received.	• The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2012/13.	●
Judgements and estimates	• Key estimates and judgements include: – useful life of property, plant and equipment – pension fund valuations and settlements – revaluations – impairments – provisions	• The Council's use of accounting estimates is disclosed in note 5 (Assumptions made about the future and other major sources of estimation uncertainty). • Our review of the judgements and estimates has not identified any significant issues. • As a result of the audit, the Council has improved the accounting policy for Property, Plant and Equipment (note 15) to disclose in greater detail the valuation policy and useful life of its asset base.	●
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any significant omissions from the Code requirements. • As a result of audit challenge, the Council has improved disclosure of 'critical judgement in applying Accounting Policies ' made in respect of schools accounting treatment (Note 4).	●

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process, some of which are trivial in nature and not reported below. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	**Comprehensive Income and Expenditure Statement and Grant Income (note 14)** The Council has accounted for £9,280k of Revenue Expenditure Funded by Capital Under Statute as being grant funded against service lines in the CIES. Testing has identified that the expenditure is funded by non-grant income and should be disclosed as Taxation and Non Specific Grant Income in the CIES and note 14. The net expenditure has increased by this amount.	9,280	Nil	9,280
2	**Non-distributed costs (CIES)** Redundancy costs totalling £4,887k were incorrectly included in the Non-Distributed Costs line in the CIES. The Code and SERCOP states that redundancy costs should be accounted for against the relevant service line in the CIES. This is a movement within the CIES statement so does not have any impact on the net expenditure. The Council has also amended the 2011/12 CIES.	Nil	Nil	Nil
	Overall impact	**£9,280**	**£Nil**	**£9,280**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. Our audit identified a small number of presentational improvements to the narrative of the disclosure notes which officers have made but we have not separately reported as we consider them trivial amendments to the disclosure.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	24,000	Amounts owed by the Council to creditors (Balance Sheet and Note 25)	The Council is an agent for the Regional Growth Fund money from Central Government. It correctly accounted for the money as cash and creditors in accordance with the Code. However, it incorrectly presented the £24m as short term creditors instead of long term.
	Disclosure	514	Grant Income (note 14)	There is an inconsistency in the disclosure of income from council tax between the Explanatory Foreword (£580,153k) and note 14 (£579,639k). The difference is the Council's share of the deficit on the collection fund of £514k. Narrative has been included in note 14 to explain the difference.
3	Disclosure	N/A	Earmarked reserves (note 22)	The Council did not include the comparative note for 2011/12 in the financial statements which is required by the Code.
4	Disclosure	N/A	Financial instruments (note 37)	The Council has improved the disclosure in the note. The following numerical amendments have also been made: • disclosure for long term investments in the 'fair values' table as the figures were included against the wrong heading • the current debtors balance in the 'financial assets' table incorrectly included the bad debt provision of £9m and a VAT debtor of £14m • the interest expense amounts in the 'financial instruments gains/losses' table were not shown with a consistent +/- convention within the note which understated the expense.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	**Revenue Expenditure Funded from Capital Under Statute (Comprehensive Income and Expenditure Statement)** As part of the asset register refresh during the year, the Council identified capital expenditure totalling £14.8m in Assets Under Construction (AUC) as at 1 April 2012 that related to spend in prior years on assets that the Council does not own or on schools that have transferred to Academy status. The Council incorrectly wrote off this expenditure to Revenue Expenditure Funded from Capital Under Statute (REFCUS) in 2012/13. However, the Council should have accounted for the capital expenditure in relation to these assets as an impairment or loss on disposal when derecognising the assets. The disclosure in note 10 (Adjustments between accounting basis and funding basis under regulations) has been enhanced to separately identify the £14.8m prior year spend. We recommend officers identify all spend in AUC as part of the disposal or transfer of the asset in future years. See management response in the action plan at appendix A.	Nil	Nil	We have not adjusted for the £14.8m AUC to REFCUS figure as this is a change in treatment from previous years and would impact a significant number of lines and notes in the financial statements. However, we have taken on board the audit recommendation and will account for this in the recommended way in future years.
	Overall impact	**£Nil**	**£Nil**	

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Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	Journal testing of in-year and year end closedown journals identified the following weaknesses: • The Council does not sequentially number journals which led to difficulties in confirming that the download of journals from the general ledger was complete • Two journals were posted twice in 2012/13; one of these was a cash posting for £39.5m. This was not identified as a duplicate until the following month as part of the month end cash reconciliation procedures	• The Council should ensure the new journal procedure guidance is implemented fully by all teams to ensure the journals are sequentially numbered in each team
2.	●	School bank reconciliations • Testing of the year end bank reconciliations showed that the schools do not perform the reconciliation as at 31 March. Many bank reconciliations were completed during the last week of March which could lead to a misstatement of the cash balance and increases the risk of unrecorded liabilities.	• The Council should encourage the schools to complete the year end bank reconciliation as at 31 March
3.	●	Capital accounting • The adopted accounting treatment for disposals does not include a review of the expenditure in Assets Under Construction. This has led to write off in the 2012/13 year of £14.8m expenditure as Revenue Expenditure Funded by Capital Under Statute. This treatment could lead to a misstatement of the gain/loss on disposal of non-current assets.	• The Council should ensure that all spend related to an asset is included in its carrying value before the asset is disposed so the true gain/loss is reported

Assessment

● Significant deficiency – risk of significant misstatement
● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance and Audit Committee and were not made aware of any fraud that could have a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council. • In particular, representations will be requested from management in respect of the significant judgement made by management in the changes to its subsidiary companies from 1 April 2013 and for not amending the financial statements for the item identified on page 15 of this report.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. However, the Council has strengthened the narrative in capital accounting related notes to explain movements or accounting treatment. • The Council disclosed in its draft accounts its 100% ownership of a newly formed company, Commercial Services Trading (CST) Ltd from 1 April 2013. This company brings under one umbrella many of the trading activities formerly undertaken by several companies owned by the Council. The Council's Balance Sheet shows that it has a loan of £11.8m to CST Ltd as at 31/03/13. However, the subsidiaries note in the draft accounts disclosed that the Council had transferred £4m of its loan to an investment in redeemable and irredeemable shares in CST Ltd. The Corporate Director of Finance and Procurement has confirmed that the subsidiary note and related party transactions disclosure were wrong and that the £11.8m loan to CST Ltd remains as at 31/03/13.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council has sound processes in place for financial governance, planning and control. It continues to face significant financial pressures to balance its budgets and has started on a journey to transform services to meet increasing demands with reduced funding. The Council is planning to improve its financial monitoring to streamline the report so those responsible for budgets have greater understanding of the current position. We have issued a separate financial resilience report in respect of this work.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. We have not identified any significant weaknesses that impact on our conclusion.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Financial resilience	We have reviewed the Council's arrangements for securing financial resilience in 2012/13, including the medium and long term financial planning, with a focus on specific areas (savings plans and capital expenditure).	A separate financial resilience report setting out the detailed findings of the review will be reported to the Governance and Audit Committee in July 2013. The overall summary against the four arrangements areas we assessed is: • Key indicators of performance – Green • Strategic financial planning – Green • Financial Governance – Green • Financial Control – Green Although there are individual elements that could be strengthened the overall conclusion for each area is there are robust arrangements in place. Recommendations have been made in the financial resilience report.
Savings plans 2013/14 – adults transformation agenda	We have reviewed the robustness of the savings plans from the adults social care transformation project.	The Council has embarked on a significant transformation project for the delivery of adult social care. The Council asked Newton Europe to undertake an initial review of the service to identify improvements in the service. Following the initial work the Council has appointed them as their partner to help transform the current social care provision in Kent on a performance related payments contract. The initial work has identified three key programme areas for the Transformation Partnership Group (TPG) to work on: commissioning; care pathway; and optimisation. Newton Europe has provided high level analysis for these areas and will report back on 22 July 2013 with detailed plans to move the transformation project forward. The Council is also continuing with internal plans for the Health and Social care Improvement Project Board (HASCIP) and Health Monies Group (HMG) with savings plans being led by officers. The Council has ensured that governance arrangements have been effectively set up to support the savings projects. There is an Adult Social Care Transformation Board with a financial monitoring group supporting the Board and TPG chaired by finance officers. There are sufficient arrangements in place to ensure the delivery of projects and financial savings will be monitored. The Council is anticipating significant savings from the baseline budget over the next three years from the TPG, HASCIP and HMG projects. The overall focus for the savings is from enablement improvements. The Council is aiming to stop unnecessary admissions to hospitals because the care package is not providing the correct support and to ensure that the correct care package is created as soon as it is needed. The Council has identified that too often intervention is later than it should be which increases the costs and length of support the customer needs. Early intervention will help transform the service. The Council anticipates that the detailed planning will deliver some financial savings will deliver some financial savings in 2013/14, but acknowledges there is a risk over the quantum of £18m being delivered. It has a number of mitigating actions to address any shortfall. Nevertheless, the saving of £18m being RAG rated as amber in the latest savings report to members is appropriate.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Corporate governance arrangements (joint follow up with Internal Audit)	We have undertaken interviews with corporate directors to understand the focus and effectiveness of the Corporate Board during 2012/13.	The Council established a new 'Corporate Board' comprising Cabinet and Corporate Management Team in March 2012. The Board's function is to achieve the cultural change required to improve collegiate working between members and management. The 2011/12 review by Internal Audit and the Audit Commission concluded that arrangements had been effectively set up. A follow up review has been undertaken by Internal Audit, with interviews of Corporate Directors jointly undertaken with Grant Thornton. We had planned to re-interview Cabinet Members who we met with in the 2011/12 review but this was not possible due to the Council elections in May 2013. Internal Audit has confirmed they will be issuing a report with an overall opinion of 'substantial assurance' for the 2012/13 review. Key findings from the interviews undertaken in March and April 2013 are summarised below: • Corporate Board (CB) worked effectively during the 2012/13 financial year. Interviewees felt that the papers and decisions considered at the meetings are appropriate , with discussions generally focussing on the most important items. • The Leader has a half an hour slot at the start of every meeting to give an update on key strategic issues. He leads discussions but asks all Corporate Directors (CD) to comment on papers and interviewees feel engagement is appropriate. • Corporate Director meetings before CB help to ensure discussions during the meetings are focussed on relevant issues and detailed scrutiny can occur in the most appropriate forum. There have been a small number of instances where papers have gone directly to CB without discussion at CMT or CD meetings first. • There is a clearer focus on the working relationships and responsibilities between CMT and Divisional Management Teams (DMT), with the latter taking service specific decisions. However, there is no formal process of which papers should be reported within the governance structure. It is the responsibility of CDs to decide where the papers are presented to. • Relationships between members and officers remain good. • Performance management of CDs is clearly documented for members to follow. The election in May has had an impact on the appraisal meetings for the 2012/13 year. The performance assessments and meetings are formally documented. Each Corporate Director receives a letter which forms the formal record of the discussion assessment. • Agenda management has improved during the year although interviewees felt this continues to be an area for further focus. All corporate directors felt that the right balance is given to critical papers. • Cabinet committees have been effectively used during the year. There is no indication that urgent key decisions are being made outside of the formal meetings which confirms the new structure is working as planned. • Overall, officers and members agree that the CB structure has improved the culture of the Council and relationships at that level. There is a more collegiate approach to managing the Council which is imperative in the financial climate it faces in future years. The previous silo approach to managing the directorates has eroded and collective thinking has improved.

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Residual Risk identified	Assurances obtained	Conclusion on residual risk
Risk management arrangements	We have reviewed the Internal Audit report issued in July 2013 which was a follow up to address weaknesses identified in 2011/12.	The Council started to improve its risk management arrangements in 2011/12. A joint review by Internal Audit and external audit in 2012 identified a number of areas for improvement. We have reviewed the follow up audit by Internal Audit in early 2013 and reviewed committee reporting of risk information, including the corporate risk register. The aim of the IA work was to provide assurance that the Council has adequate, robust risk management arrangements in place to support delivery of objectives and the Annual Governance Statement. The overall audit opinion of IA is adequate, an increased rating from the 2011/12 review. The Head of Business Intelligence, Performance and Risk and the Corporate Risk Manager have now been in post for over a year and have put in place sound processes for identifying and monitoring risks across the Council. The team has started to embed the risk management arrangements and recognise that there is more to do to ensure this is consistent across the Council. Policies and procedures are available to all staff on the intranet and the Risk Management Policy refresh was approved by the Governance and Audit Committee in September 2012. A member training session was delivered to the same committee meeting to ensure that members are aware of the policies and major risks facing the Council. Training for officers is still an area for development, although the release of an e-learning risk management package in June 2013 should help to address this weakness if communicated to staff effectively. The risk team has also presented directly to teams that have proactively asked for a workshop during the year. Corporate and directorate risk registers were formalised in 2012/13 across the Council which is an improvement from the previous year. However, IA found that at a divisional level the registers are still inconsistently used. The Corporate risk Team undertook quality reviews of all directorate and divisional risk registers in April-May 2013 and results will be reported back to Directorate Management Teams. Officers intend to build into future training and guidance the key themes identified from the reviews. The Council implemented a new risk system, GRACE, during the 2012/13 year. All risk registers have been loaded onto the system. The system is intended to be a 'live' register and updated regularly to reflect the changing environment of the Council and the risks associated with a service at any time. This has the potential to equip managers and members with up to date information to take timely corrective action. It is too early to assess the effectiveness of this system in managing the risks of the Council. Corporate risks are included in the quarterly performance report to Cabinet and Corporate Board. The report is also reviewed and challenged by the Performance Evaluation Board. The reporting of risks to the Governance & Audit Committee is undertaken twice yearly for assurance purposes.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Performance management arrangements	We have reviewed the Internal Audit report issued in May 2013 which was a follow up to address weaknesses identified in 2011/12.	The Council made improvements to its performance management arrangements in 2011/12. A joint review by Internal Audit and external audit in 2012 identified a number of areas for improvement. We have reviewed the follow up audit by Internal Audit in early 2013 and reviewed committee reporting of performance information. The aim of the IA work was to ensure that the Performance Management Framework is effective, including the underlying processes for collecting, reviewing and ensuring the quality of data. The overall audit opinion of IA is substantial. The 'Bold Steps for Kent' sets out the vision and key priorities for Cabinet and the County Council. There are 16 priorities in the 'Delivering Bold Steps' document, supported by projects/programmes the Council is currently or planning to undertake in the future, and quarterly and annually collected performance indicators. The Council developed a corporate suite of 30 key performance indicators (KPIs) to measure progress against priorities in its vision. Where possible, the KPIs are reported to Cabinet via quarterly performance reports. The quarter four performance report was presented to Cabinet in June 2013. This reported that of the 30 KPIs the RAG rating for 2012/13 was: 14 green, 11 amber, and five red. Of the five red, majority of these had showed improvement during the year and the Cabinet recognised that these were stretch targets. There are clear action plans in place to improve the red indicators. The Council recognises that the information reported at directorate level needs to be improved and appropriate action has been taken during the year. Each directorate has performance indicators linked to their business plan which is the method used for monitoring performance at divisional and directorate management teams. The Council enhanced the reporting at this level by creating directorate dashboards with performance indicators being approved by the relevant Cabinet Committee. However, on some occasions in the early stages of reporting, IA found there was some inconsistency between information presented in the corporate and directorates' dashboards. Where these are identified, an update is reported at the next meeting. In addition, not all directorates are effectively using the Performance Information Definition forms. IA testing identified that some forms did not have an accountable officer for the KPI and that not all officers at directorate level were aware of the forms. There is a low risk that KPIs are not being collected or analysed consistently across the Council. In addition, the rationale for targets set are not clearly documented. A best practice example was identified in Specialist Children's Services and this method should be rolled out across the Council.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Children's services re-inspection by Ofsted	We have reviewed the summary and detailed reports published by Ofsted in January 2013 to determine whether the 'except for' conclusion can be removed.	In 2010/11 Ofsted's inspection of the Council's safeguarding children and young people services and services for looked after children raised significant concerns about operational practice (which is outside of the scope of external audit) and aspects of the Council's 'proper arrangements'. This led to an 'except for' VFM Conclusion for the past two years. The inspection highlighted weaknesses in the Council's arrangements for: • producing relevant and reliable data and information to support decision making and manage performance; and • planning, organising and developing the workforce effectively to support the achievement of strategic priorities. Ofsted carried out an unannounced re-inspection of the Council's arrangements for the protection of children and young people in November 2012 and published its findings on 15 January 2013. Ofsted's overall conclusion is the service is now "adequate". The report commented positively on progress made since the 2010 inspection and reported that no children were found to be at risk of immediate significant harm. The adequate rating means that Kent provides a service that meets minimum requirements. Further improvement work is still required . The Council's response was reported to members in June 2013. The Council requested a new improvement notice. Our review of the inspection report and discussions with officers has enabled us to remove the 'except for' conclusion for the 2012/13 VFM Conclusion . The Council has effectively addressed the two areas of concern : • Data quality – Ofsted concluded the Council "*has a comprehensive approach to gathering and analysing performance data and has used this to drive improvements* ". The report also comments on the wide range of practice audits the Council has undertaken and the positive learning from these. However, Ofsted does identify weaknesses in that there is not an overarching programme or strategy for the audits. The new improvement notice does not include any specific data-driven targets but the Council has decided to continue to report the County scorecard to ensure that improvements in data since 2010 are maintained. Specialist Children's Services has developed a new Quality Assurance Framework which refreshes the previous policy and captures the comprehensive and holistic nature of the approach the Council is seeking to take to move the service forward. These actions sufficiently address the 2010 weaknesses. • Workforce – the report concludes "*A workforce development strategy has reduced vacancy rates through a range of initiatives including overseas recruitment and a 'grow our own' policy. While there remain significant difficulties in recruiting suitably qualified and experienced staff to some posts and some areas, the Council has adopted an appropriately determined stance, preferring to employ good locum staff rather than appointing weak candidates to permanent posts. It has also taken a robust stance on poorly performing staff, a number of whom have now moved on from their posts*." The Council has taken sufficient action to address the critical workforce weaknesses from 2010. The Council's adoption services were also inspected in March 2013 by Ofsted. The report published on 18 June 2013 concluded that the overall service provided is adequate. Three of the areas reviewed were adequate and 'leadership and management' was assessed as good.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	207,900	207,900
Grant certification	6,250	6,250
Total audit fees	**214,150**	**214,150**

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Fees for other services

Service	Fees £
Regional Growth Fund claim audit	4,000

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- The mother of the in-charge auditor is a teacher in an academy school. Although there is no impact on the audit opinion as she is not employed by the Council we have put safeguards in place so the auditor does not undertake the audit of the Teachers' Pensions Return; and
- The mother of a trainee auditor involved in the audit is a teacher at a LA maintained school. The mother is employed on a consultancy basis so is not on the Council's payroll. However, as the mother receives a pension we have put safeguards in place so the auditor does not undertake the audit of the Teachers' Pension Return

Neither of the above disclosed auditors undertook work during the accounts audit that would impact on our independence. We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should ensure the new journal procedure guidance is implemented fully by all teams to ensure journals are sequentially numbered in each team.	Low	Agreed - the journal procedures are in place.	With immediate effect - Chief Accountant
2	The Council should encourage schools to complete the year end bank reconciliation as at 31 March.	Medium	Agreed - will liaise with Schools Financial Services to encourage the year end bank reconciliation as at 31 March.	By 31 March 2014 - Chief Accountant
3	The Council should ensure that all spend related to an asset is included in the carrying value before the asset is disposed so the true gain/loss is reported.	Medium	We will ensure that any spend included within assets under construction that relates to assets being disposed of is taken into account in the calculation of gain / loss on disposal.	For 2013/14 statement of accounts - Capital Finance Manager

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Kent County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Kent County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Superannuation Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2013. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.
Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells

Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

24 July 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We set out changes to the Audit Plan in the Audit Findings section of the report on page 8.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	Yes – risk updated to be 'accruals understated'	We identified an internal control weakness in the year end bank reconciliation process undertaken by schools.
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings			No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	The accounts have been amended to include £9,280k of capital grants and contributions that were incorrectly shown as grant income against the service lines in the CIES.
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	No material issues identified. However, recommendation made to improve accounting for disposals to include review of expenditure in assets under construction. This is unadjusted misstatement of £14.8m in the accounts.

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Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	No material issues identified. However, the Council has improved the narrative within the capital accounting notes to explain consistency between entries, particularly the accounting treatment of impairments that are not shown in note 15.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	The RGF money was included in short term creditors. This money is not due to be paid out within the next 12 months so should be classified as long term.
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

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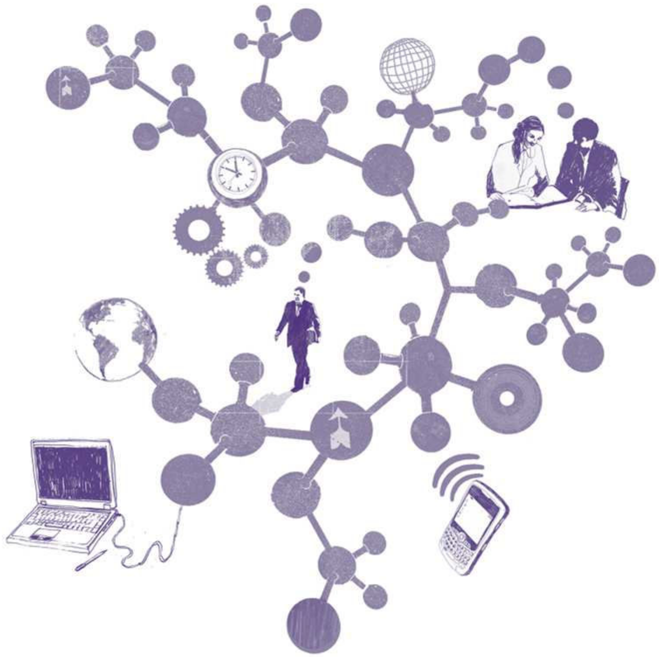
The Audit Findings for Kent Superannuation Fund

Year ended 31 March 2013

July 2013



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of the Kent Superannuation Fund ('the Fund') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the fund during the year and that they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

We received draft financial statements on 7 June and commenced the audit on site on 17 June, in accordance with the dates agreed with management.

We have not altered or changed our audit approach, which we communicated to you in our Audit Plan dated 11 March 2013.

Our audit is substantially complete, although we are finalising our procedures in the following areas:

- obtaining and reviewing the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review to the date of signing the opinion.

Key audit and financial reporting issues

Financial statements opinion

We did not identify any adjustments on audit which affect the Fund's reported financial position. The draft financial statements recorded net assets at 31 March 2013 of £3,813 million, and this remains the same in the audited financial statements. However ,we highlighted a number of adjustments to disclosures during the audit to enhance the presentation of the financial statements.

We anticipate providing an unqualified opinion on the Fund's financial statements after completion of our final audit procedures..

The key messages arising from our audit of the Fund's financial statements are:

- the financial statements provided for audit were complete and compiled in accordance with the CIPFA Code of Practice for Local Authority Accounting
- the Fund produced good working papers to support the financial statements and a timely response to audit queries
- no amendments were required to the prime financial statements on audit
- management agreed to amend the financial statements for all recommended disclosure changes.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2013

Section 2: Audit findings

Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to alter or change our Audit Plan as previously communicated to you on 11 April 2013.

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Contributions receivable	Scheme Contributions	Other	Recorded contributions not correct	No	None
Transfers in	Transfers in to the scheme	Remote		No	None
Pensions payable – lump sums and on retirement	Benefit payments	Other	Benefits improperly computed/claims liability understated	No	None
Payments to and on account of leavers	Benefit payments	Other	Transfers improperly computed/liability understated	No	None
Administrative expenses	Administrative expenses	N/A		No	None
Investment income	Investments	Other	Investment activity not valid – income not complete	No	None

Account	Transaction Cycle	Material misstatement risk?	Description of Risk	Change to the audit plan	Significant audit findings?
Profit and loss on disposal of investments and changes in value of investments	Investments	Other	Investment activity not valid- investments not valued at fair value	No	None
Taxes on income	Investments	N/A		No	None
Investment management expenses	Investments	Remote		No	None
Investments	Investments	Other	Investments not valid	No	None
Current assets	Scheme Contributions , investments and cash	N/A		No	None
Current liabilities	Benefit payments, investments	N/A		No	None

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We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 11 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our draft audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular, we did not identify any issued from our review of journal controls and testing of journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	Investments not valid Investments activity not valid Fair value measurement not correct	• We reconciled investments between information provided by the fund managers, the custodian and the Superannuation Fund's own records. • We selected a sample of the individual investments held by the Fund at the year end and tested the valuation of the sample by agreeing prices to third party sources where published (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments). • We confirmed the existence of investments directly with independent custodians and/or fund managers. • We tested a sample of sales and purchases during the year back to detailed information provided by the custodian and fund managers. • We reviewed the Fund's compliance with its Statement of Investment Principles.	Our audit work confirmed that the investment values, classifications and movements in the Net Assets Statement and supporting notes are not materially misstated. We identified one immaterial misclassification in the analysis of fixed interest securities in Note 14 (which also affected the currency exposure disclosures in Note 17)and one immaterial misclassification of investments in Note 17. Both the Fund and the audit team identified these issues and the financial statements have been amended to correct the misclassifications. During our review of the Fund's compliance with its Statement of Investment Principles, we noted two issues which the Fund needs to consider: • the Statement of Investment Principles states that all Fund managers should attend the Superannuation Fund Committee at least once a year. We identified one fund manager who did not attend the committee in 2012/13. • the Statement of Investment Principles includes agreed benchmark holdings for the different types of investments, with an allowable two per cent tolerance. The Principles specify that any variances from the specified tolerances should be formally considered and agreed by the Superannuation Fund Committee at their next meeting. We noted that the tolerances were exceeded at both 31 December 2012 and 31 March 2013 for several investment classes, but the March committee minutes do not clearly document the decisions made by the committee in this respect. We have asked the Fund to fully disclose these two issues in the 2012/13 Superannuation Fund Annual Report.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit Payments	Benefits improperly computed/claims liability understated	• We reviewed controls around benefit payments to ensure key controls over new starters, leavers, deferrals, changes of circumstances and new pensioners were operating effectively. • We selected a sample of individual transfers, pensions in payment (new and existing) and lump sum benefits and tested them by reference to the benefit calculations on the respective member file.	Our testing confirmed that key controls over benefit payments are operating as designed. Our audit work confirmed that benefits payments and payments on account of leavers are not materially misstated. We did not identify any issues or amendments to benefit payments in the financial statements as a result of our audit procedures.
Contributions	Recorded contributions not correct	• We reviewed controls used by the Fund to ensure it all expected contributions from member bodies. • We select a sample of contributions and confirmed that they had been correctly calculated. • We rationalised contributions received with reference to changes in contributor numbers and average pay.	Our testing confirmed that key controls over contributions are operating as designed. Our audit work confirmed that contributions receivable are not materially misstated. We did not identify any issues or amendments to contributions in the financial statements as a result of our audit procedures. In the financial statements the employee contributions receivable in 2012/13 decreased by 2.8%, whereas contributing member numbers increase by 2.7%. The reason for this mismatch was unclear from working papers provided. Further follow up work was carried out and this provided an explanation for these trends that helped confirm the validity of both figures. Contributions receivable has fallen in 2012/13, despite increases in the number of contributing members, because the average contribution rate per member has reduced.

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Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the Fund is accounted for on an accruals basis.	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements.	●
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code	●
Judgements and estimates	• Key estimates and judgements include; – Actuarial present value of promised retirement benefits – investment valuation of private equity	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. • The level of judgement required by the Fund is low . Estimates used are generally supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	●

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Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted a couple of non trivial disclosure errors only in the notes to the financial statements during the audit. The table below provides details. No adjustments are required to the Fund revenue account or the net assets statement.

All the amendments identified during the audit have been discussed and agreed with management and included within the final financial statements. There are no unadjusted misstatements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	(2,261)	Note 14 - Fixed Interest – UK Corporate	The Fund misclassified the disclosure of classes of assets in Note 14 and related notes. There was no impact on the primary financial statements and the net effect is zero. Note 14 has been amended to correct the classification error
2	Disclosure	43,034	Note 14 - Fixed Interest – Overseas Sovereign	
3	Disclosure	(40,773)	Note 14 - Fixed Interest – Overseas Corporate	
4	Disclosure	43,034	Note 18 - Financial Instruments Currency Exposure	Note 18 has been amended to incorporate the correction to the value of overseas sovereign investments in note 14 (highlighted above).
5	Disclosure	£9,372	Notes 17a, c and d Financial Instruments	Other investment balances have been reclassified from loans and receivables to designated as fair value through profit and loss in notes 17a, 17c and 17d. The 2011/12 comparatives have also been reclassified for consistency (£6,694k and -£173k). In notes 17c and 17d the entries for loans and receivables and financial liabilities at amortised cost have been removed as these notes should only include financial instruments valued at fair value.
6	Disclosure	(1,610)	Notes 17a, c and d Financial Instruments	

During the audit we also identified a number of narrative presentation and disclosure issues in the financial statements and recommended additional disclosures to enhance the presentation of the financial statements. All amended disclosures have been agreed and applied by the Fund.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

We have not identified any significant weaknesses in internal controls for our work. However, if we had performed more extensive procedures on internal control, we might have identified some deficiencies to be reported.

The matters reported in this report are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents of fraud. No issues have been identified during the course of our audit procedures.
2.	**Matters in relation to laws and regulations**	• We have not identified any significant incidences of non-compliance with relevant laws and regulations, but have recommended a couple of enhancements to improve documented compliance with the Fund's Statement of Investment Principles (see above).
3.	**Written representations**	• A standard letter of representation has been requested from the Fund and is included on the committee agenda.
4.	**Disclosures**	• Our review confirmed that the financial statements were prepared in accordance with the CIPFA Code of Practice for Local Authority Accounting. During the audit we suggested a number of enhancements to disclosures in the financial statements, which the Fund has implemented.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed in the financial statements.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Fund audit	30,568	30,568
Total audit fees	**30,568**	**30,568**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Future developments

Future developments relevant to your Fund and the audit

Political	Environmental	Social	Technological

Developments relevant to the next financial year

1. Financial reporting	2. Legislation	3. Actuarial valuation at 31 March 2013	4. Other issues
No significant emerging issues effecting the Pension Fund expected for the year ending 31 March 2013.	The Pensions Act 2008 requires employers to automatically enrol eligible employees onto the Local Government Pension Scheme. Employees not wishing to participate must opt-out of membership following enrolment.	A full actuarial valuation of the Pension Fund is undertaken ever three years. The next full valuation will be undertaken as at 31 March 2013. This valuation will determine the funding position (the extent to which fund assets will meet accrued pension liabilities) and determine future employer contribution rates.	The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.

Developments relevant to future periods

1. Financial reporting	2. Legislation	3. Actuarial valuation	4. Other issues
CIPFA/LASAAC are currently considering developments to the 2014/15 Code in respect of IFRS 13 Fair Value Measurement which may impact on valuation and disclosures required in the financial statements. Whilst the Fund's financial statements are prepared under the Code, which is based on IAS 26, it also draws on the Pensions SORP in some areas. PRAG has formed a working party to update the Pensions SORP. An updated SORP is not expected until 2014.	Under the Local Government Pension Scheme (LGPS 2014) proposals, pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Changes to the pensions administration systems will be required. Funds need to be liaising with software suppliers now to ensure their administration systems can successfully process benefit payments under both the old and new schemes from 1 April 2014.	Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	PRAG has recently released a discussion paper on the valuation of insurance policies, and specifically the option to value buy-in policies at £nil if effective discharge of liabilities has occurred. The discussion paper recommended that such policies are always valued, not recorded at £nil, and this may come through in the revised SORP in due course.

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Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected unmodified auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority
High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Superannuation Fund Committee should consider if any amendments are required to the Fund's Statement of Investment Principles to ensure practice adopted is not inconsistent with the principles as stated. e.g. attendance of fund managers at committee meetings.	Medium	Agreed. The Committee's practice is to review its Statement of Investment Principles at least annually and it is next due to consider the SIP at its meeting on 30 August 2013.	30 August 2013, Treasury and Investments Manager
2	The Superannuation Fund Committee minutes should be enhanced to formally record the decisions reached by the committee on any reallocation of investments based on variances reported from agreed benchmarks.	Medium	Agreed. At every meeting the Committee receives a Fund Asset Allocation report from the Head of Financial Services. The minutes of future meetings will record the Committee's discussions and any decision made regarding the asset allocation.	Immediate, Head of Financial Services
3	As part of its year end closedown plan, the Fund should review the correlation between changes in member numbers and movements in contributions and benefits to provide assurance over the reasonableness of both sets of figures.	Low	Agreed.	Year end 31 March 2014. Treasury and Investments Manager / Pensions Manager

Appendix B: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013, and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Paul Creasey
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

1020 Eskdale Road
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24 July 2013

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By:	John Simmonds, Cabinet Member for Finance & Business Support Andy Wood, Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2013
Subject:	**External Audit Financial Resilience report 2012/13**
Classification:	Unrestricted

Summary: This paper sets the context to the External Auditor's Financial Resilience report

FOR ASSURANCE

Introduction and background

1. Grant Thornton, as External Auditor to the Council, is required to report the results of the work undertaken to assess the Council's arrangements to secure value for money. As part of the VFM Conclusion we have undertaken a review of the Council's financial resilience in 2012/13, covering four areas:
    - key financial indicators
    - strategic financial planning
    - financial governance
    - financial control

2. For the last two years Grant Thornton have produced a national summary of the outcome of the financial resilience reviews that they have undertaken for their clients - most recently in the form of a report called 'Towards a Tipping Point?'. Grant Thornton will produce a similar document later this year that will reflect that their growing number of audit clients. We will form part of the basis of their national report this year.

3. The attached report sets out the findings from the review.

Recommendation

4. Members are asked to note the report.

Neeta Major
Head of Internal Audit
Ext: 4664

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Review of the Council's Arrangements for Securing Financial Resilience for Kent County Council

Year ended 31 March 2013

5 July 2013

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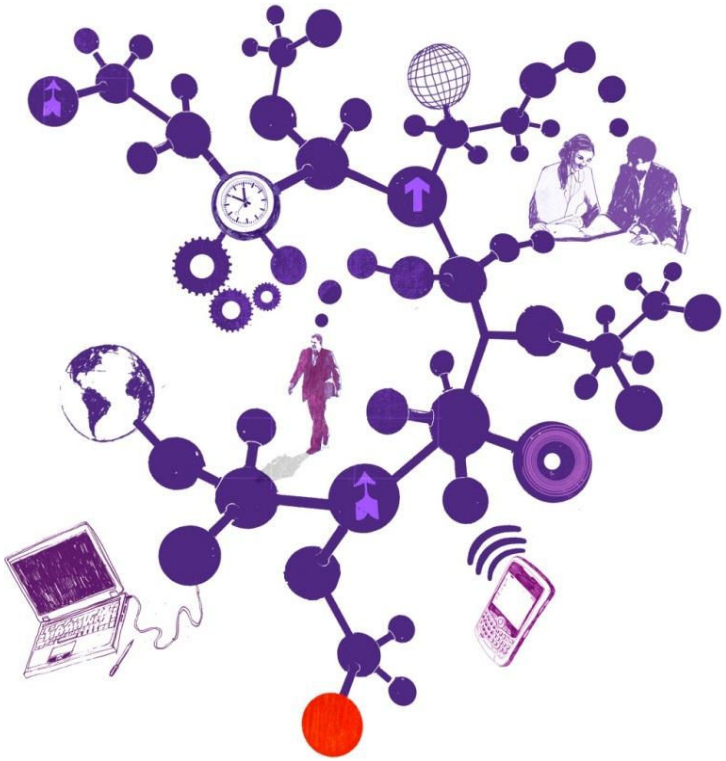

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible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

Contents

Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that the Council has put sound arrangements in place and adequately approached financial planning, governance and control. The primary scope of our work was the delivery of budgets during 2012/13, the financial planning for 2013/14 and the medium term plan. This report needs to be read in the context that 2012/13 is the second year of the four-year SR10 period, where some of the potential risks and challenges over the medium term may have yet to materialise.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

Local Context

Kent is divided into 12 local authority districts and Medway Unitary Authority. The Kent County Council (KCC) area excludes Medway. It is the largest County Council in the country. Kent's population is currently estimated to be 1,480,200 people with a forecast growing trend which is putting increasing pressure from higher demand on services.

Kent has traditionally been a high performing Council. In 2010 there was a 'poor' Ofsted inspection but the Council has worked hard since to improve the quality of the service and achieved an overall 'adequate' rating for children's services in January 2013.

Similar to all other public sector bodies, Kent is facing a significant financial challenge to deliver its current level of services with reducing funding. The Council is aware that it is one of the most challenging financial periods which means new ways of working need to be identified. The Council has made savings totalling £174 million in the past two years and has built in £95 million savings into the 2013/14 budget. The Council expects that it will have to make savings of a similar magnitude over the next three years.

The Chancellor’s Autumn Statement announced a further reduction of 2% for local government in 2014/15 which added to previous announcements is likely to mean a reduction of £32.4m funding for KCC. The Council's current approach for setting the budget is to continue to avoid direct cuts to services wherever possible. It plans to use transformational change to deliver savings whilst continuing to provide a quality service with the reduced funding available.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• We have reviewed six key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group. The review considered the following: liquidity; borrowing; workforce; performance against budgets; reserve balances; and schools balances. • Overall the ratio analysis has shown a relatively positive outlook for the Council with workforce, performance against budget and reserves improving over the past few years. • The Council's liquidity ratio is below the acceptable level of current assets to liabilities at 2:1 as the last published data (2011/12) shows a ratio of 1.22. The Council's ratio has been improving over the past couple of years and as at 31 March 2013 the liquidity is a ratio of 1.76. • Although the Council is an outlier for long term borrowing, the levels of debt are in line with its prudential indicators and treasury management policy.	Green
Strategic Financial Planning	• The Council has robust strategic financial planning arrangements in place. The Council's Medium Term Financial Plan is set for the period 2013-15 and takes account of the directorate and service business plans for the 2013/14 year. There are strong links between the MTFP and the Council's key priorities. • There was an extensive consultation of the 2013/14 budget over the summer of 2012. The Council used an external agency to undertake two full days of consultation with the public and Cabinet has analysed the results and published a formal response setting out its considerations and impact on the final budget. • The Council uses scenario planning in preparing its budget to understand the potential impact of decisions.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	• The Council has sound financial governance arrangements. There is a robust process for setting the budget and identifying significant savings for the past two years. • Cabinet members are engaged and have an understanding of the financial environment the Council operates in. Training is to be provided for new members of the Governance & Audit Committee to ensure they understand the financial accounting environment before approving the 2012/13 financial statements. • The Council has limited understanding of its costs outside of the demand led services. Unit cost information for adults and children's services are reported quarterly to Cabinet, with a small number of other costs, but there is more the Council could do, especially as the financial environment becomes more challenging. • Financial health indicators are reported as part of the detailed quarterly revenue and capital budget monitoring to Cabinet. However, these indicators generally report the financial position at the end of the month being reported and are not forward looking into the medium or longer term.	Green
Financial Control	• The Council has well established financial control arrangements in place. Savings totalling £174m have been made in 2011/12 and 2012/13 with a further £95m identified in the 2013/14 budget. • The Council has effective finance and internal audit teams which are well placed to help the Council move forward in the difficult financial environment. • The risk management arrangements are improving although the Council has recognised that further improvements are required to embed the arrangements.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The level of borrowing should continue to be monitored carefully to ensure continued affordability.	Corporate Board	Immediate	We have already set an upper limit of 15% of net revenue being used for debt repayment. This will be closely monitored on the rolling three year capital programme in development to ensure this limit is not breached.
Strategic Financial Planning	The Council should consider financial planning for the longer term by extending the MTFP over a 3-5 year period.	Corporate Director of Finance & Procurement	Immediate	We will consider MTFP term, including aligning with spending review periods and/or local election periods. We will introduce three year horizon planning as a minimum.
Financial Governance	The Council should improve awareness and understanding of key unit costs to aid decision making.	Corporate Director of Finance & Procurement	By November 2013	Training and information will be much more easily accessible.
Financial Control	The Council should continue to improve its risk management arrangements through effective use by all relevant staff of its new risk reporting system, GRACE.	Corporate Risk Manager	TBC	TBC

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1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

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Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

Benchmark comparisons against KCC's nearest neighbours have been provided to officers as a separate appendix.

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following County Councils:

Cambridgeshire
Derbyshire
Essex
Gloucestershire
Hampshire
Hertfordshire
Lancashire
Leicestershire
Northamptonshire
Nottinghamshire
Oxfordshire
Staffordshire
Warwickshire
West Sussex
Worcestershire

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Council's own financial health indicators	• The Council monitors its own performance against four financial health indicators; cash balances; long term debt maturity; outstanding debt owed to the Council and the percentage of payments made within payment terms. • The overall downward trend of cash balances held Since September 2009 reflects a policy to use cash to fund capital expenditure rather than borrow. The Council repaid £77m debt principal in 2012/13. Over the next four years, some £91m principal matures. Debt owed to the Council reduced by some £4m between March 2012 and Marc 2013, to a year end total of £19.4m. The Council paid 88% of payments within 30 days this year compared with 89% in 2011/12.	Green
Liquidity	• The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. KCC's working capital ratio has been relatively stable in the range of 1.00 in 2008/09 to 1.22 in 2011/12. Comparative information on liquidity from the Council's statistical nearest neighbours shows its performance is within the 'norm'. The Council has calculated its liquidity as at 31 March 2013 and reported a ratio of 1.76 to Corporate Board.	Green
Borrowing	• The Council reports performance against prudential borrowing indicators in the full quarterly revenue and capital monitoring report in appendix 6. Its prudential borrowing indicator for 2012/13 was £1,154m. The operational boundary borrowing position (excluding Medway Council debt) as at 31 March 2013 is £969m which means the indicator has been met. • The Council set an authorised limit for external debt of £1,195m for 2012/13. It has not needed to utilise the additional borrowing limits in the financial year. • The Council's Long-term Borrowing to Council Tax Revenue is 1.92 which indicates that it has long term borrowing which exceeds tax revenue by almost two times. This is the highest amongst the comparator group, with other authorities typically having a ratio of 1 or less. The Council's ratio of long-term borrowing to long-term assets is 0.54 in 2011/12. This compares to the median of the comparator group of 0.3. In recognition of its comparative long term borrowing ratio the Council has set a prudential indicator of 15% of net revenue being used for debt repayment.	Green
Workforce	• The average sickness absence level for the public sector in 2011-2 was 7.9 days per FTE, local government average was 8.0 and the private sector average for the same year was 5.7. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year as it often results in additional costs through using agency staff. • In comparison, the Council's performance was 7.8 days. In 2012/13, this reduced to a weighted average of 7.5 days. • The Council reports sickness absence targets in the quarterly performance report presented to Cabinet. The quarterly results for 2012/13 are: June 2012 - 7.7; Sep 12 – 7.5; Dec 12 – 7.3; and Mar 13 – 7.4. The Council is in line with the trend of falling sickness absence levels in the public and private sector.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	• The Council has achieved an underspend for the past 13 years. • The year end financial outturn shows an underspend of £16.081m (excluding schools). This is offset by a reported reduction in school reserves for 2012/13 of £10.964m. This gives a total underspend as at 31 march 2013 of £5.117m. • The year end capital outturn is also an underspend with £41m capital money being re-phased into the 2013/14 financial year.	Green
Reserve Balances	• The Council has maintained the level of general fund reserve, in line with its MTFP 2013-15, at £31.7m at year end. This amounts to 3.3% of the 2013/14 net revenue budget, and 2.2% of the gross revenue budget (excluding schools). The movement of +£22.4m in earmarked reserves in 2012/13 is clearly identified in the 2012/13 financial statements and explained in the outturn report being presented to Cabinet on 15 July 2013. • The useable reserves to gross revenue expenditure ratio is around 14% for 2011/12 and has increased to around 18% for 2012/13. There has been a relatively steady position for reserve balances over the past five years. Compared with its comparator group, KCC is below the median.	Green
Schools Balances	• The 2012/13 accounts showed a total carry forward to 2013/14 of £16,488k. This represents a carry forward of £10,274k on the centrally retained DSG budget and £6,606k on the schools' unallocated budget. The schools unallocated reserve now stands at over £9m, and its use is determined by the Schools' Funding Forum who have committed the majority of the unallocated reserve and estimated that over half will be spent in 2013/14. • The Council's share of schools balances in relation to the total DSG allocation received for the year is 7%. This is at the average for the peer group. • The Council's schools have been reducing their balances and the Council should continue to monitor this to ensure balances remain at a reasonable level. Some of the reduction in balances is linked to the removal of balances held by schools who have transferred to academy status in the year.	Green

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Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment

Focus of the MTFP	• The Council has developed a Medium Term Financial Plan (MTFP) for 2013-2015. This was approved by the County Council alongside the revenue and capital budgets for 2013/14 on 14 February 2013. The Council has balanced its budget for 2013/14, identifying revenue savings of £95 million. The MTFP includes the national and local context for Kent to establish the overall challenges the Council is facing. For 2013/14, this is a reduction of around £39 million in government grants (equates to 9.5%). This is estimated to be 4% of net spending.
	• The MTFP includes clear spending demands and pressures alongside the potential income generation and savings proposals. As part of the budget proposals the Council has confirmed that it will continue to use the Council's cash reserves to protect front-line services. However, is has recognised that reserves will need to be replaced if consumed and this is not a long term solution to a budget deficit. For 2013/14, the Council has used £9m of earmarked reserves to balance the budget.
	• The budget strategy for 2013/14 and beyond, as set out in the MTFP, is based around the 4 P's:
	  • Prevention: the Council plans to move away from expensive reactive service provision to investing in preventative models that are cost effective and deliver better outcomes. This is shown in the investment of the health money in adults transformation project.
	  • Productivity: The Council has identified that it needs to deliver a step change in the productivity of its services and staff. It plans to do this through greater integration around its key client groups and by investing in back office support systems and procedures to release resources to the front line.
	  • Procurement: the Council aims to introduce the best business and service practice found across the private sector for procuring its goods and services.
	  • Partnership: the Council has identified that to make a reality of the above three areas it must have effective partnerships across all Kent public services so the benefit is seen across the county. This is required for joint commissioning and service delivery.
	• The Vision for Kent is the Council's countywide strategy for the social, economic and environmental wellbeing of Kent's communities. This sets out a 10-year vision for these ambitions with the capital investment programme focussed on achieving the vision. The capital programme is set for the period 2013-2016. The Council set a new capital strategy for 2013/14 which focuses on capital investment and a greater focus on the Council's strategic priorities to ensure it maximises the value of its assets. It has developed fiscal indicators in the strategy with the key indicator being to limit the cost of borrowing to 15% of overall revenue and capital spend. The capital programme shows an investment of £695m over three years from 2013/14, with £107.8m funded from borrowing.
		Green

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Strategic Financial Planning (continued)

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	• The assumptions around the national budget announcements and pressures are built into the MTFP, with the Council providing a clear assessment of how it is has interpreted this in relation to the residents of Kent. For example, due to the continued pressures on household income across Kent, particularly with the introduction of the welfare reform changes to some of the poorest families in the county, the Council has frozen council tax for the third consecutive year in 2013/14. • Arrangements for effective future financial planning are sound. The Council decided to develop three year service strategies for all directorates from 2012/13 to assist in the transformation of the Council's services against a backdrop of long-term financial decline. These strategies were to be shaped around: vision and innovation; risks and implications; and helping to shape the future. The Budget Programme Board has continued its work during the 2012/13 financial year and has challenged Directors and Heads of Service where strategies are not realistic to ensure that planning assumptions built into the service plans can be relied upon. This process is on-going and the Council has realised the importance of the BPB's work. • The 2013/14 budget process built in scenario planning and stress testing over the summer of 2012. The timing of the process ensured that there was sufficient learning from the public consultation. The medium to long term assumptions appear reasonable for the future financial position. The Council remains prudent in its spending plans and recognises that savings will be more difficult to achieve in the future without cutting services. • The Council does not routinely benchmark itself against other local authorities. It used to take part in the CIPFA benchmarking club but data was not sufficiently up to date to be beneficial to the decision making process or understanding of its budget base so it stopped participating two years ago.	Green
Scope of the MTFP and links to annual planning	• The Council's MTFP 13-15 is linked closely with the Bold Steps for Kent and other key Council policies. The budget is linked to the individual Business Plans for 2013/14 submitted by directorates for Cabinet approval in April 2013. This built on the business plans developed for 2012/13 with an enhanced focus on cross cutting plans between directorates/services and early engagement of Cabinet Committees in shaping headline priorities and pre-scrutiny of early draft plans . The business planning process has helped divisions plan ahead earlier for future capacity and demands which focuses them on the financial challenges they face. • The Council used an external agency to undertake two consultation days with local people and partners in east and west Kent as part of budget setting process for 2013/14. The approach involved high level consultation on the broad shape and objectives of the budget and services the Council can provide with the reduced funding allocation. The consultation has focussed the Council's priorities as well as identifying areas of the budget that the public believe should be protected.	Green

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Strategic Financial Planning (continued)

Area of focus	Summary observations	Assessment
Review processes	• The MTFP is reviewed and updated as part of the annual planning cycle. The Council has identified that the plan only gives a forward view for two years but believes a longer term plan is not possible given the uncertainties around funding from government. This is reasonable as there is not sufficient information available for the Council to use to realistically predict the budget for 15/16 and beyond. • The Council reviews its financial performance regularly with quarterly reporting to Cabinet on the Council's achievement of its corporate priorities. The reporting is clear and focused on the risk areas and performance targets that are not being met.	Green
Responsiveness of the Plan	• The Council published an early draft consultation of the budget in the summer of 2012. 416 members of the public, in addition to the specific consultation with stakeholder groups, commented on the draft budget proposals. Cabinet formally considered the responses received from the consultation at its meeting in December 2012 and this informed the next version of the draft MTFP. • Due to the late announcement of the provisional local government finance settlement the revised final draft budget could not be published until January which is later than originally intended as it only gave a short window for further consultation. This consultation required £14.8 million more savings than in the first draft due to the final budget announcement. The MTFP had sufficient flexibility to enable members to respond to these further pressures by identifying savings to ensure that the budget presented for County Council approval in February was balanced. • There remains significant uncertainty about the financial position for 2014/15 and beyond. The Council has a good track recording of delivering its annual budgets and savings plans which gives confidence that the business planning process is resilient enough to ensure that good outcomes can be maintained despite major spending reductions. • The Council undertakes scenario planning for its major areas of spend and uses this to inform decision making. Members and officers have a clear understanding and awareness of the challenges the Council faces and that new ways of working need to be developed.	Green

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• The Corporate Board has a sound understanding of the financial environment that the Council operates within. The introduction to the annual budget and MTFP sets out the national and local pressures and identifies the need for integrated thinking to meet these pressures, not only within the Council, but with its stakeholders. The Council is aware of the main risks that it faces and has set these out in the MTFP in the financial risks and opportunities section. The amounts reported are not included in the 2013/14 budget but have been identified as potential issues/opportunities for the Council to incorporate into the budget during the financial year. • The Council understands the financial challenges facing its stakeholders. It has continued to work with small and medium businesses in Kent and is an agent for the Regional Growth Fund money to help expand businesses in East Kent by creating / protecting jobs in an area of high unemployment. • The Cabinet receives quarterly revenue and capital budget monitoring reports which include detailed variance analysis and explanations on a directorate basis. The report also details the Council's key activity indicators and financial health indicators which gives decision makers the relevant information to make informed decisions. • Financial awareness training is provided to budget holders and a training session is being provided at the start of the Governance and Audit Committee in July 2013 to ensure that new members are aware of the financial environment and accounting framework before approving the 2012/13 financial statements. • The Council has approved and communicated to staff and members the financial instructions and standing orders in which the Council operates. These have been issued to all officers with financial management responsibilities. We have not identified any breaches in the Council's compliance with the financial regulations during 2012/13.	Green
Executive and Member Engagement	• There is strong member and corporate director engagement on financial matters through the Corporate Board. • Cabinet portfolio holders are actively engaged in the budget setting and monitoring financial delivery. Members are aware of the need for greater savings in future years, and that services will need to be provided differently if the Council is to meet the demand against the increasing pressures.	Green

Financial Governance (continued)

Understanding and engagement

Area of focus	Summary observations	Assessment
Executive and Member Engagement (continued)	• Members outside of Cabinet are also actively involved in understanding the financial environment in which the Council operates. The business planning process for 2013/14 was reviewed and challenged by Cabinet Committees. A report to Cabinet commented on the positive impact of Cabinet Committees' review and challenge of the business planning process. • The Governance and Audit Committee meet throughout the year and have clear terms of reference for their responsibilities in ensuring the financial governance of the Council. There is a member work and development programme that is reviewed at every committee meeting to ensure that the committee is carrying out its function. The Committee's membership has changed following the elections in May 2013 and the Council has training planned to ensure that new members are properly equipped to effectively carry out their role.	
Overview for controls over key cost categories	• The Council monitors and reports the revenue budget on a portfolio basis. The Council has been going through a major restructure since the start of 2011/12 and changed its portfolio and coding structure in the ledger in that financial year. The reporting from the ledger is based on the portfolios. • The resource allocations note in the 2012/13 financial statements has been prepared on the portfolio basis. The note does include the adults and specialist children's services as one 'families and social care directorate but this has been accepted as both services are the responsibility of one Corporate Director. • The Council has acknowledged that it does not understand all of its costs and that this is an area to be strengthened in the future. Currently, the reporting of budgets on a unit cost basis is focussed on the demand-led services of adults and children's social care. This is set out in appendix 4 of the quarterly budget monitoring report to Cabinet. • Financial regulations are reviewed and updated as appropriate.	Amber
Budget reporting: revenue and capital	• The Council reports the full revenue and capital budget position on a quarterly basis to Cabinet. The reports enable members to make informed decisions on the budgeted outturn position and for corporate directors to understand the financial position. These are very detailed reports, including explanations for all significant variances. The Council has identified that it needs to improve the budget monitoring reports to make them more accessible for members. The reports need to be more concise to give members a snapshot of the overall financial position and key risk areas.	Green

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Financial Governance (continued)

Understanding and engagement

Area of focus	Summary observations	Assessment
Budget reporting: revenue and capital (continued)	• Budget monitoring exception reports are presented to Cabinet in the intervening months. These highlight significant issues arising in a specific budget since the last full quarterly report. These reports give the Cabinet sufficient information to make decisions as necessary in between the detailed reporting. • The quarterly budget reports set out the predicted revenue and capital budget outturns on a portfolio basis. Although the overall report is long, the level of variance analysis within the reports is considered appropriate to explain the variance. • Monthly budget reports for revenue and capital are produced for the budget holder. The management accountant linked to the service meets with the budget holder to discuss action needed for variances. The report level is sufficient to allow the budget holder to understand the budget and position for the month and year to date. • The year end financial outturn shows an underspend of £16.081m (excluding schools). This is offset by a reported reduction in school reserves for 2012/13 of £10.964m. This gives a total underspend as at 31 march 2013 of £5.117m. All portfolios were underspent with the exception of specialist children's services. The reasons for the overspend are widely reported. Much investment has been made to improve the service. This has been successful as evidenced by Ofsted's re-inspection report in January 2013 rating the service as 'adequate'. The challenge for the service is to continue the rate of improvement whilst meeting its budgeted outturn. • The year end outturn for the capital programme shows an underspend of £41.899m against the revised approved budget totalling £202.998m. This represents slippage of 21% in 2012/13. The main reasons for under-spending are operational delays and project slippage with £43.871m being re-phased into 2013/14. The net underspend position included £4.388m additional funded variances and £2.416m project underspends. The Council needs to ensure that the capital programmes is robustly planned and monitored to ensure slippage of this magnitude does not occur again.	Green
Adequacy of other Committee/ Cabinet Reporting	• The Cabinet meets every month. There is a clear agenda and forward plan for the meetings. It discusses and takes decisions on the most significant issues facing the Council. The quarterly budget reports include financial health indicators covering cash balances, debt, payments made within agreed terms and inflation indices. • The Council has established five Cabinet Committees from 1 April 2012 that meet throughout the year. The purpose of the committees is to consider the functions of the Council that are the responsibility of the related Cabinet Members. They review the key decisions and reports that are being presented to Cabinet which gives added governance focus to the issues. In addition, a new suite of Scrutiny Committees was established at the same time.	Green

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

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Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

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Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The Council has a robust process in place for setting the budget and has a strong record of achieving its budgeted outturn with an underspend for the past 13 years. There is a clear understanding of the financial pressures whilst meeting the priorities set out in the Bold Steps for Kent. • The Council met its aim to publish the 2013/14 budget much earlier than in previous years, with the draft budget published for consultation in the summer of 2012. This allowed for longer review of the draft budget by its stakeholders, and for members to give full consideration to the responses before approving the final budget in February 2013. The Cabinet's response to the consultation feedback is available on the Council's website. • The annual budget is built from a historical baseline adjusted for any growth, inflationary pressures and savings options. The Budget Book sets out the budget in an a-z alphabetical listing identifying individual service budgets and which portfolio is responsible for each line in the Budget. It also shows key performance and affordable activity levels. The services continue to be split into four main sections: Direct service to the public; Financing items; Assessment services; and Management, support services (including support to front line services) and overheads. • The Budget Book also sets out the revenue budget on a directorate basis for an overall view of the service area a Corporate Director is responsible for. • The Council has revised its three year capital programme forecast of £629.4m with a forecast underspend of £18.5m in the MTFP 2013-15. This is due to variances on a number of projects, as well as aligning some of the planned schemes in line with the new Capital Strategy.	Green
Performance against Savings Plans	• The Council has a robust process in place for identifying and monitoring savings. The savings target for 2012/13 was £79m which was achieved by year end. Of the revenue underspend of £16.081m, the Cabinet is being asked to approve the rolling forward of the uncommitted underspend of £4.9m into reserves pending future budget decisions as it is recognised that the savings pressures are becoming increasingly difficult to identify and there will continue to be significant government cuts over the medium term. Historically, the Council has a good track record of meeting its budget and delivering the required savings every year. • The savings target for the 2013-14 financial year is £95m. 2013/14 budget setting followed the same process as adopted in 2011/12 and budget savings to be identified within each directorate. An update report was presented to the Governance and Audit Committee in April 2013 setting out the BRAG ratings of each of the savings: £41m savings are already blue (banked); £18m were green; and £36m were amber.	

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment

Performance against Savings Plans (continued)	• We reviewed two of the amber rated savings plans as part of our financial resilience work to determine how realistic the savings targets were. We agreed the Council's RAG assessment for both:
	  • adults transformation £18.1m – we have reported this work in detail in the Audit Findings Report as part of the value for money conclusion. Overall, the Council does not yet have a clear understanding of how the £18.1m savings will be made in 2013/14. The Council's partner Newton Europe has undertaken initial work and identified for review, commissioning, care pathways and optimisation. A progress report is expected on 22 July. The Council anticipates that the detailed planning will deliver some financial savings in 2013/14, but acknowledges there is a risk over the quantum of £18m being delivered. It has a number of mitigating actions to address any shortfall.
	  • workforce terms and conditions (T&Cs) review and reduction of 100 non-frontline posts £2.3m – Of the £2.3m savings to be made in 2013/14, about £1.3m is to be realised from the terms and conditions review, with £800k already identified as savings by each directorate. HR presented a paper for the proposed changes to T&Cs to the Personnel Committee in January 2013. Following this paper, HR has carried out a 'floor walking' exercise to understand how staff are affected by the proposed changes. The outcome of this is due to be reported to CMT in July. A decision on how to achieve the balance of £500k savings will also need to be made.
	• All savings identified in the budget are owned by Heads of Service. For all projects over £200,000 the responsible directorate/ manager prepares a Project Initiation Document (PID) identifying how savings will be delivered, the quantum of savings and project milestones. A formal review of the 2012/13 PIDs was carried out in September 2012 to ensure the proper rating had been assigned by the responsible officer halfway through the year. This helped the Council to meet the overall savings target for 2012/13. The focus for monitoring and review of the overall budget continues with the usual budget monitoring process.
	• The Council established the Budget Programme Board (BPB), a mixed group of members and officers, in October 2011. The Cabinet Member for Finance chairs the weekly meetings. The initial focus of the BPB was to monitor the budget and hold budget holders to account for their PIDs which support the detailed savings plans. The Council has continued the BPB as this group has helped to drive the required efficiencies and ensure that savings are realised as planned at the directorate level. However, due to the successes of the PID process in 2012/13, the Council evolved the process for 2013/14 to give the Heads of Service (as responsible owners) greater individual monitoring responsibility. Only high risk PIDs were collated centrally and reported to the BPB. The Council has identified that this is not as effective as the process in 2012/13 and is going to ask for all PIDs to be submitted centrally for 2014/15. This is important in the increasingly difficult financial environment.
		Amber

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Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Performance against Savings Plans (continued)	• The PIDs will be electronically linked to the MTFP from 2014/15. • The Council has maintained the level of general fund reserve, in line with its MTFP 2013-15, at £31.7m at year end. This amounts to 3.3% of the 2013/14 net revenue budget, and 2.2% of the gross revenue budget (excluding schools). The movement of +£22.4m in earmarked reserves in 2012/13 is clearly identified in the 2012/13 financial statements and explained in the outturn report being presented to Cabinet on 15 July 2013.	
Key Financial Accounting Systems	• The Council has used Oracle as its main accounting system for a number of years which it has developed internally using the skills of its in-house ICT department to meet its financial monitoring and reporting needs. • There is a sound understanding of the ledger within the financial systems team. They are able to interrogate the system and run specialist reports as needed by budget holders and directors. • The Council has a strong history of producing its accounts earlier than the statutory 30 June deadline to receive its audit opinion towards the end of July. It is the earliest county council to receive an audit opinion which is a result of the liaison and co-operation with its external auditors. • Internal Audit has not reported any limited assurance reports on the key financial systems during 2012/13.	Green
Finance Department Resourcing	• The Council has undergone a significant restructuring over the past two years. The finance department restructure was in early 2012/13 financial year. This centralised the finance staff from the previous devolved directorate finance teams. Although there has been a reduction in the number of finance staff overall at the Council the finance team has sufficient capacity to carry out its function effectively. • The Corporate Director of Finance and Procurement is well respected across the Council and is a member of Corporate Management Team so has a good oversight of the financial impact of all key decisions made. • The Chief Accountant and Capital Finance Managers were new in their posts at the start of the financial year. The accounts were produced in line with the Council's early closedown deadline and the audit has been completed in the short audit visit which confirms the competency and knowledge of the finance team.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Internal audit arrangements	• The Internal Audit department has undergone a number of changes in the year and has sufficient staffing to deliver the work programme for 2012/13. To enhance capacity of the team, the Council is using experienced contract staff for some of the reactive investigation work as well as more detailed projects, and Deloittes for the IT audit programme. The team has undertaken two investigations on behalf of Grant Thornton following concerns by members of the public. • As at the end of February 2013 the Internal Audit Plan for 2012/13 was 85% complete which is ahead of target. The Head of Internal Audit is confident that the targeted completion of 90% will be exceeded by year end. This will be reported to the July Governance and Audit Committee (G&AC). • Internal Audit has raised its profile within the Council over the past year and is experiencing a greater workload as officers in the directorates request investigations or audits. A summary of all work completed is reported to the G&AC with follow up of the recommendations made as a standard part of the progress report. • The Internal Audit team has reviewed the Public Sector Internal Auditing Standards which came into effect on 1 April 2013. There are no fundamental differences between the new standards and previous standards included in the CIPFA Code of Practice. The Council will need to obtain external verification of their compliance with the standards.	Green
Assurance framework/risk management	• Due to weaknesses identified by Internal Audit and the previous external auditor, we undertook a review of the risk management arrangements in 2012/13 as part of the VFM conclusion and reported our findings in the Audit Findings Report. This review placed reliance on the work of Internal Audit's follow up review in year. Internal Audit's report was issued in June 2013 with an overall assurance rating of 'adequate'. • The Corporate Risk Manager has been in post for a year which has led to improvements in the arrangements. However, there is still more work to be done to embed the risk register arrangements, including the use of the new system GRACE, across the Council. There remains inconsistencies between directorates/divisional registers and the monitoring of risk.	Amber

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1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

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Grant Thornton

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By:	Deputy Leader and Cabinet Member for Finance and Procurement – John Simmonds Corporate Director of Finance and Procurement – Andy Wood
To:	Governance and Audit Committee – 24 July 2013
Subject:	DRAFT STATEMENT OF ACCOUNTS 2012-13
Classification:	Unrestricted

Summary: This report asks Members to consider and approve the draft Statement of Accounts for 2012-13.

FOR DECISION AND APPROVAL

1. INTRODUCTION

1.1 The draft Statement of Accounts of the County Council for 2012-13 follows this report. The Accounts and Audit Regulations 2011 state that;

…no later than 30th September in the year immediately following the end of the year to which the statement relates
i) consider either by way of a Committee or by the Members meeting as a whole the Statement of Accounts;
ii) following that consideration, approve the Statement of Accounts by a resolution of that Committee or meeting;
iii) following approval, ensure that the Statement of Accounts is signed and dated by the person presiding at the Committee or meeting at which that approval was given;

1.2 The audit is now complete and we therefore recommend that the Accounts are finalised and signed today, as this will free up finance staff to move forward with new year tasks and projects. The Auditors have given an unqualified opinion.

1.3 Letters of Representation are provided in connection with the audits of the financial statements for the Council and the Kent Superannuation Fund; and these are required to be formally minuted by the Committee that they are approved.

1.4 Members are encouraged to scrutinise these Accounts and ask questions.

1.5 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 Emma Feakins, 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) and is known as the Code.

2.2 The Statement of Accounts for 2012-13 is the third to be prepared on an International Financial Reporting Standards (IFRS) basis.

2.3 This year, our external auditors suggested that we look at de-cluttering our accounts. This has resulted in removing notes that were deemed as immaterial and presenting the notes in an order which we believe is of most interest to the reader. An index has been included to help the reader navigate through the accounts.

For each note the relevant accounting policy has been included in the body of the note. There is an accounting policy note included for general policies where there is no need for a specific note.

2.4 The remainder of Section 2 of this report highlights the key facts, figures and issues from the attached draft Accounts.

Foreword Pages 3-6

2.5 The details of the revenue outturn are shown on Pages 3 and 4. This shows an underspend of £16m against the non-schools budgets. Details of underspends within the portfolios have been detailed in the monitoring reports throughout the year and were reported in the Final Outturn report which went to Cabinet on 15 July.

2.6 There has been no change in the level of general revenue reserves and the balance stands at £31.7m. This is deemed to be an acceptable level of general reserves based on the current budget, and the Council's identified risks, by the Corporate Director of Finance and Procurement.

2.7 Capital expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £41.899m less than the latest revised cash limits. Of this, £45.104m reflected re-phasing of capital expenditure plans across all services and £3.205m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2013-14 and beyond in order to accommodate the revised profiles of capital expenditure.

2.8 Schools have revenue reserves of £38.2m and capital reserves of £0.7m.

2.9 The 2012-13 IAS 19 report shows an increase in the Pensions Reserve deficit of £28m. See Paragraph 2.17 for more information.

Statement of Responsibilities Page 7

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

<u>Financial Statements Pages 8-13</u>

Movement in Reserves Statement (MiRS)

2.11 This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. Usable reserves have increased by £64m in 2012-13. The main increases are:

	£m
Unapplied Capital Grants, reflecting re-phasing of the projects these grants are funding	34
Capital Receipt Reserve	19
Council Tax Equalisation Reserve, agreed in 2013-14 budget	8
Total of major increases in earmarked reserves	**61**

2.12 The MiRS is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It does this by analysing:

i) The increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

ii) The increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets.

iii) Movements between reserves to increase or reduce the resources available to the authority according to statutory provisions.

Comprehensive Income and Expenditure Statement

2.13 The Comprehensive Income and Expenditure Statement (CIES) consolidates all the gains and losses experienced by an authority during the financial year. As authorities do not have any equity in their Balance Sheets, these gains and losses should reconcile to the overall movement in net worth.

2.14 The CIES has two sections:

i) Surplus or Deficit on the Provision of Services – the increase or decrease in the net worth of the authority as a result of incurring expenses and generating income.

ii) Other Comprehensive Income and Expenditure – shows any changes in net worth which have not been reflected in the Surplus or Deficit on the Provision of Services. Examples include the increase or decrease in the net worth of the authority as a result of movements in the fair value of its assets and actuarial gains or losses on pension assets and liabilities.

Balance Sheet

2.15 The Balance Sheet summarises the Council's financial position at 31 March each year. In its top half it contains the assets and liabilities that it holds or has accrued with other parties. As local authorities do not have equity, the bottom half is comprised of reserves that show the disposition of an authority's net worth, falling into two categories:

i) Usable Reserves, which include the revenue and capital resources available to meet future expenditure (e.g. the General Fund Balance and the Capital Receipts Reserve), and

ii) Unusable Reserves, which include:
unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve);
adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

2.16 Long-term assets have decreased by £206.6m. The majority of this decrease relates to Property, plant and equipment where we have derecognised assets.

2.17 Long term liabilities have increased by £29m. £28m of this is due to an increase in the liability related to defined benefit pensions schemes under IAS 19 reporting. The note to explain the increase can be found in Note 36 on page 87 of the Accounts. Long term creditors have increase by £24m due to the Regional Growth Fund. These increases are offset by a decrease of £13.6m of Capital Receipts in Advance and a decrease in PFI lease liabilities of £5m. The note to explain the decrease can be found in Note 14 on page 37 of the Accounts.

2.18 Our net worth has decreased from £180.4m to £57m. This is primarily due to the decrease in balances held for property, plant and equipment as explained in paragraph 2.16 (and page 37 of the Accounts).

Cash Flow Statement

2.19 This statement summarises the changes in cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash equivalents comprise call accounts (same day access funds) and account for £213.9m of the £215.1m on the balance sheet.

<u>Significant Notes to the Accounts pages 14-104</u>

Adjustments between accounting basis and funding basis under regulations

2.20 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. It also supports the line in the MIRS and provides more detail on how this is split across usable and unusable reserves.

Officers Remuneration

2.21 Note 6 on pages 19-29 provides details of officers' remuneration over £50,000 and details on exit packages in bands on £20,000 split between compulsory redundancy and other departures.

Deposits in Icelandic banks

2.22 Note 8 on page 30 sets out the latest schedule of anticipated timings of repayments in relation to the Icelandic banks. Under regulations we have had to write the net impairment charge of £0.8m to the general fund. This was £0.2mm of impairment plus £0.6m of accrued interest. Under the latest CIPFA LAAP Bulletin on Iceland Accounting our accounts show that of the £50m deposited we are accounting to recover approximately 96%.

Property, Plant and Equipment

2.23 Note 15 on pages 37-49 shows the movements on these assets, which have slightly reduced in value (relatively) from £2.2bn to £2.01bn.

Reserves

2.24 Details of reserves can be found in the following notes, Usable Reserves in Note 20 which also includes earmarked reserves, Unusable Reserves in Note 21, and earmarked reserves in Note 22 on pages 69-74. Earmarked reserves have increased by £22.3m, the remainder of usable reserves by £42m and unusable reserves by £187.7m (£130m of which relates to the Capital Adjustment Account). The main reasons for these increases are shown in paragraph 2.11.

Amounts Reported for Resource Allocation Decisions

2.25 Note 31 on pages 80-83 is also known as the segmental reporting note and is based on our management structure. It shows outturn information reported by directorate which is then reconciled to the cost of services in the Comprehensive Income and Expenditure Statement.

Pension Fund Accounts pages 105-131

2.26 Pages 105-131 contain a summarised extract of a more detailed statement produced for the Pension Fund.

Auditor's Report Pages 131-135

2.27 Within the Accounts and Audit Regulations 2011 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 2012-13 Accounts commenced on the 17th June and ended on the 12th July.

2.28 The external audit provides an independent opinion as to whether the Statement of Accounts gives a true and fair view of the financial position of Kent County Council at 31 March 2013 and its income and expenditure for the year ended 31 March 2013. The audit started in June and finished 12th July. Following approval of the Accounts by Members, the external auditor will issue their signed opinion. The Accounts are expected to be formally signed today (24th July), with an unqualified opinion.

Annual Governance Statement Pages 136-147

2.29 The Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions including the management of risk. The Accounts include an Annual Governance Statement on pages 132 to 143 which confirms how the Council has discharged this responsibility, in accordance with the Accounts and Audit regulations 2011. The Statement confirms that, during the financial year 2012-13, overall Corporate Governance arrangements and internal controls in the Authority were in place. The Statement also identifies some governance issues that will be addressed in the current year.

2.30 CIPFA requires that the content of the Annual Governance Statement be approved by the Governance and Audit Committee. In approving the Statement, Members should consider the section headed "Review of Effectiveness", which summarises the assurances used to assess the effectiveness of the Council's governance framework. Members should also take into account the work of the Committee over the last year, any other information of which they are aware, as well as the reports included on this agenda, namely:

- the work of Internal Audit, as summarised in the Annual Report;
- the Treasury Management Annual Report;
- the conclusions from the external auditors.

Glossary

2.31 A glossary of some of the terms used within the Accounts is provided on pages 148-149.

Other Issues

2.34 Each year, our external auditors have to produce an Audit Findings 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 Errors, and the report is formally known as the ISA260. This report is provided at agenda item 9 of this Committee.

3. <u>RECOMMENDATION</u>

Members are asked to:

3.1 Consider and approve the Statement of Accounts for 2012-13.

3.2 Approval of the Letters of Representation

3.3 Note the recommendations made in the Annual Governance Report.

Emma Feakins
Chief Accountant
Ext: 4634

Cath Head
Head of Financial Management
Ext: 1135

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Notes to the Accounting Statements index

Foreword

The purpose of this Statement of Accounts (Accounts) is to summarise the financial performance for the year 2012-13 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 Statement of Accounts for 2012-13 is prepared on an International Financial Reporting Standards (IFRS) basis.

The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA), the Financial Reporting Advisory Board and the UK 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 148 and 149.

The Accounts consist of:

- A Movement in Reserves Statement on pages 8 and 9.
- A Comprehensive Income and Expenditure Statement on pages 10 and 11.
- The Balance Sheet on page 12 which sets out the financial position of Kent County Council as at 31 March 2013.
- The Cash Flow Statement which summarises the inflows and outflows of cash, page 13.
- Notes to support the above primary statements, pages 14 to 104.
- The Pension Fund Accounts - an extract from the more detailed published statement, pages 105 to 131.

Revenue Budget and Outturn

In February 2012 the Council approved a net revenue budget for 2012-13 of £904.321m. In addition £17.242m of 2011-12 underspending was rolled forward and added to the budget. The final outturn position for the year against the revised budget is set out in the table below together with the sources of income from which the Council's net revenue expenditure was financed.

PORTFOLIO	Budget	Outturn	Variance
	£000's	£000's	£000's
Education, Learning & Skills	48,359	42,610	-5,749
Specialist Children's Services	148,601	158,111	9,510
Adult Social Care & Public Health	329,464	326,907	-2,557
Environment, Highways & Waste	156,630	153,697	-2,933
Customer & Communities	81,390	77,350	-4,040
Regeneration & Enterprise	3,654	3,657	3
Finance & Business Support	85,482	76,103	-9,379
Business Strategy, Performance & Health Reform	60,409	60,228	-181
Democracy & Partnerships	7,574	6,821	-753
	921,563	905,484	-16,079
Delegated Schools Budgets	0	10,964	10,964
	921,563	916,448	-5,115

	Budget	Outturn	Variance
FUNDED BY:-	£000's	£000's	£000's
Reserves	-17,242	-17,242	0
Formula Grant	-303,446	-303,446	0
Council Tax	-580,153	-580,153	0
Council Tax Freeze Grant	-14,446	-14,448	-2

New Homes Bonus Grant	-2,839	-2,839	0
Local Services Support Grant	-3,437	-3,437	0
Total Funding	-921,563	-921,565	-2
NET OUTTURN POSITION	0	-5,117	-5,117

The net underspending within the portfolios of £16.081m (excluding £10.964m delegated schools overspend) has been carried forward and will be used as follows: £5m to support 2013-14 budget, £6.157m to roll forward to fund existing commitments as a result of re-phasing and £4.924m to reserves pending further analysis of the funding outlook for KCC.

Schools

In total, schools overspent against their delegated budgets by £10.964m, which has been drawn down from school reserves. This includes a £1.888m drawdown from school reserves as a result of 34 schools converting to new style academy status which allows them to take their reserves with them, and a £2.983m underspend against delegated budgets for the remaining Kent schools. In addition, there was £12.059m of overspending on the unallocated schools budget, largely due to £5.2m of schools collaboration work; £2.42m to fund transitional protection for changes in formula funding for specialist schools delegated budgets; £2.951m revenue contribution to capital for joint funded capital projects with schools in order to keep them warm, safe and dry; £0.411m for schools broadband; £0.3m for schools finance training, and an overspend on early years placements of £1.135m offset by other minor variances of -£0.358m. Schools now have £38.193m revenue reserves and there is £9.931m of unallocated schools budget reserves.

Revenue Reserves

The general reserve position at 31 March 2013 is £31.725m, which is unchanged from the position as at 31 March 2012.

Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landsbanki's UK subsidiary Heritable went into administration. The Council had £50.35m deposited across these institutions, including £16m invested on behalf of the Pension Fund and £1.3m on behalf of the Kent and Medway Fire Authority. The £50.35m represented 10.9% of the total deposits of the Council of £462.8m. The Glitnir claims were paid in full in 2011-12 and in 2012-13 there were repayments from both Heritable and Landsbanki. Latest indications suggest that we will recover 100% from Landsbanki and 88% from Heritable as outlined in LAAP82 Update 7 - although since this document was issued a large part of Heritable's remaining business has been sold and a large dividend will be received in August. In real terms this means a recovery of 96% of the original deposit plus interest to the respective claim dates although this will be increased when the Heritable dividend is received.

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 £181.2m. The expenditure analysed by portfolio was:-

PORTFOLIO	Revised Budget £'000s	Outturn £'000s	Variance £'000s
Education, Learning and Skills	100,107	84,626	-15,481
Adult Social Care and Public Health	4,316	2,954	-1,362
Environment, Highways & Waste	58,791	57,453	-1,338
Customer and Communities	6,621	5,606	-1,015
Regeneration & Enterprise	10,036	2,693	-7,343
Business Strategy, Performance and Health Reform	23,943	7,963	-15,980
Specialist Children's Services	709	1,329	620
	204,523	162,624	-41,899
Devolved Capital to Schools	18,157	17,481	-676
	222,680	180,105	-42,575
Property Enterprise Fund 1		7	7
Property Enterprise Fund 2		1,117	1,117
TOTAL	222,680	181,229	-41,451

Expenditure excluding that incurred by schools under devolved arrangements and the Property Enterprise Fund was £41.899m less than cash limits. Of this, £45.104m reflected re-phasing of capital expenditure plans across all services and £3.205m was due to variations on a small number of projects. These unspent capital resources will be carried forward into 2013-14 and beyond in order to accommodate the revised profiles of capital expenditure.

Capital expenditure incurred directly by schools in 2012-13 was £17.481m and at 31 March 2013 schools have in hand some £0.676m of devolved capital funding, a decrease of £1.324m on 2011-12, which will be carried forward to 2013-14 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 Council established a second Property Enterprise Fund (PEF2) with a maximum overdraft of £85m to be funded by prudential borrowing, but with the anticipation that the fund was to broadly breakeven over a rolling five year cycle. However, due to the slower than expected economic recovery, breakeven is likely to occur over a rolling seven to eight year cycle. This fund differs from PEF1 as only earmarked receipts are accounted for through PEF2 with the sole purpose of supporting the capital programme. The fund will provide a prudent amount of funding up front, in return for properties which will be held corporately until the property market recovers. This enables the Council to take a longer term view on achieving the best value from our assets.

Details of the financing of capital expenditure are on page 50.

Capital Reserves

At 31 March 2013 the Council has earmarked and other capital reserves of £141.1m as shown on page 61.

Insurance Fund

IAS 37 Provisions, Contingent Liabilities and Contingent Assets 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 2013 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 IAS 37. Details can be found on page 75.

Pension Fund

Local Authorities are required to comply with the disclosure requirements of IAS 19 - Employee Benefits. Under IAS 19, the Council 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. IAS 19 is based upon 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 Comprehensive Income and Expenditure Account, the Balance Sheet and the Movement in Reserves Statement.

IAS 19

The 2012-13 IAS 19 report shows that the Pension Fund now has a deficit of £894m. This is an increase in the deficit of £28m in year.

Current Borrowing & Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2012-13, earlier years and for future years. The balance currently stands at £1025.9m as shown on the balance sheet on page 12. 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.

East Kent Opportunities

East Kent Opportunities (EKO) is a "Jointly Controlled Operation" and in 2012-13 the transactions and balances of EKO relating to KCC have been incorporated into the financial statements and notes of the Council's Statement of Accounts.

Further information about the Accounts can be obtained from Emma Feakins, Chief Accountant.

Telephone Maidstone (01622) 694634 or e-mail emma.feakins@kent.gov.uk.

Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council 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 Council, that officer is the Corporate Director of Finance and Procurement;
- 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 24 July 2013 on behalf of Kent County Council and have been re-signed as authorisation to issue.

Councillor Richard Long
Chairman of the Governance and Audit Committee

The Corporate Director of Finance and Procurement's Responsibilities

The Corporate Director of Finance & Procurement is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Council Accounting in the United Kingdom (the Code), and is required to give a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

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

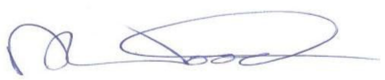
- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code.

The Corporate Director of Finance and Procurement 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.

I confirm that these accounts give a true and fair view of the financial position of the Council at the reporting date and its income and expenditure for the year ended 31 March 2013.

Certificate of the Corporate Director of Finance and Procurement



Andy Wood
Corporate Director of Finance and Procurement
17 July 2013

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

	Year ended 31 March 2012				
	General Fund Balance	**Earmarked GF Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2011	**-26,725**	**-174,297**	**-16,504**	**-60,790**	**-278,316**
Movement in Reserves during 2011-12					
Surplus or (Deficit) on Provision of Services	11,983				**11,983**
Other Comprehensive Expenditure and Income		25			**25**
Total Comprehensive Expenditure and Income	**11,983**	**25**	**0**	**0**	**12,008**
Adjustments between accounting basis & funding basis under regulations - Note 10	-43,411		1,607	-13,211	**-55,015**
Net increase/Decrease before Transfers to Earmarked Reserves	**-31,428**	**25**	**1,607**	**-13,211**	**-43,007**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	26,428	-26,428			**0**
Increase/Decrease (movement) in Year	**-5,000**	**-26,403**	**1,607**	**-13,211**	**-43,007**
	Year ended 31 March 2013				
Balance at 31 March 2012 carried forward	**-31,725**	**-200,698**	**-14,897**	**-74,002**	**-321,322**
Movement in reserves during 2012-13					
Surplus or (Deficit) on Provision of Services	106,045				**106,045**
Other Comprehensive Expenditure and Income					**0**
Total Comprehensive Expenditure & Income	**106,045**	**0**	**0**	**0**	**106,045**
Adjustments between accounting basis & funding basis under regulations - Note 10	-118,175		-18,685	-33,519	**-170,379**
Net increase/Decrease before Transfers to Earmarked Reserves	**-12,130**	**0**	**-18,685**	**-33,519**	**-64,334**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	12,130	-12,130			**0**
Increase/Decrease (movement) in Year	**0**	**-12,130**	**-18,685**	**-33,519**	**-64,334**
Balance at 31 March 2013 carried forward	**-31,725**	**-212,828**	**-33,582**	**-107,521**	**-385,656**

Movement in Reserves Statement

	Year ended 31 March 2012		
	Total Usable Reserves	**Unusable reserves**	**Total Council Reserves**
	£'000	**£'000**	**£'000**
Balance at 31 March 2011	**-278,316**	**-229,386**	**-507,702**
Movement in Reserves during 2011-12			
Surplus or (Deficit) on Provision of Services	11,983		11,983
Other Comprehensive Expenditure and Income (total of *'s on CIES)	27	315,318	315,345
Total Comprehensive Expenditure and Income	**12,010**	**315,318**	**327,328**
Adjustments between accounting basis & funding basis under regulations	-55,015	55,015	0
Net increase/Decrease before Transfers to Earmarked Reserves	**-43,005**	**370,333**	**327,328**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-43,005**	**370,333**	**327,328**
	Year ended 31 March 2013		
Balance at 31 March 2012 carried forward	**-321,321**	**140,948**	**-180,373**
Movement in reserves during 2012-13			
Surplus or (Deficit) on Provision of Services	106,045		106,045
Other Comprehensive Expenditure and Income (total of *'s on CIES)		17,326	17,326
Total Comprehensive Expenditure & Income	**106,045**	**17,326**	**123,371**
Adjustments between accounting basis & funding basis under regulations	-170,380	170,380	0
Net increase/Decrease before Transfers to Earmarked Reserves	**-64,335**	**187,706**	**123,371**
Transfers to/from Earmarked Reserves (total of *s on Note 20)	0	0	0
Increase/Decrease (movement) in Year	**-64,335**	**187,706**	**123,371**
Balance at 31 March 2013 carried forward	**-385,656**	**328,654**	**-57,002**

Comprehensive Income and Expenditure Statement

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 2013		
		Gross Expenditure	Gross Income	Net Expenditure
Service		£'000	£'000	£'000
Cultural Services		8,409	3,583	4,826
Environmental, Regulatory & Other Services		17,932	6,517	11,415
Planning Services		23,075	5,390	17,685
Court Services		2,845	475	2,370
Arts & Libraries		33,960	1,699	32,261
Waste Management		69,688	2,996	66,692
Children's and Education Services		1,255,703	969,773	285,930
Highways, Roads and Transport Services		164,159	18,510	145,649
Adult Social Care		539,691	133,276	406,415
Corporate and Democratic Core		38,889	26,996	11,893
Non Distributed Costs		14,220	8,661	5,559
Cost of Services		**2,168,571**	**1,177,876**	**990,695**
Other operating Expenditure	**11**			99,197
Net Surplus on trading accounts	**32**			-5,585
Financing and Investment Inc and Exp	**12**			88,607
Taxation and Non Specific Grant Income	**13**			-1,066,869
(Surplus) or deficit on Provision of Services				**106,045**
(Surplus)/deficit arising on revaluation of non current assets			*	-5,244
Actuarial (gains)/losses on pension fund assets / liabilities			*	23,203
(Surplus)/deficit arising on loans and receivables			*	-633
Total Comprehensive Income and Expenditure				**123,371**

Comprehensive Income and Expenditure Statement

Service	Notes	Restated Year ended 31 March 2012 Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Cultural Services		23,584	3,176	20,408
Environmental, Regulatory & Other Services		21,229	13,928	7,301
Planning Services		19,051	3,883	15,168
Court Services		2,684	475	2,209
Arts & Libraries		22,659	2,076	20,583
Waste Management		69,642	2,960	66,682
Children's and Education Services		1,352,645	1,133,369	219,276
Highways, Roads and Transport Services		176,308	19,582	156,726
Adult Social Care		529,083	163,279	365,804
Corporate and Democratic Core		30,571	27,541	3,030
Non Distributed Costs		12,821	16,554	-3,733
Cost of Services		**2,260,277**	**1,386,823**	**873,454**
Other operating Expenditure	**11**			98,463
Net Surplus on trading accounts	**32**			-8,425
Financing and Investment Inc and Exp	**12**			71,936
Taxation and Non Specific Grant Income	**13**			-1,023,445
(Surplus) or deficit on Provision of Services				**11,983**
(Surplus)/deficit arising on revaluation of non current assets			*	-42,292
Actuarial (gains)/losses on pension fund assets / liabilities			*	358,817
(Surplus)/deficit arising on loans and receivables			*	-1,204
Other				25
Total Comprehensive Income and Expenditure				**327,329**

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.

		31 March 2013		31 March 12
	Notes	**£'000**	**£'000**	**£'000**
Non Current Assets				
Property Plant & Equipment	**15**	2,016,868		2,211,572
Heritage Assets	**18**	6,637		5,980
Investment Property		22,322		23,501
Intangible assets		2,899		1,591
Total Property Plant & Equipment			2,048,726	2,242,644
Long-term investments	**37**	0		11,320
Long-term debtors	**24**	59,759		61,172
Total long-term assets			2,108,485	2,315,136
Inventories		6,467		7,006
Assets held for sale (<1yr)		5,016		4,820
Short term debtors	**24**	163,748		171,016
Investments	**37**	64,961		134,681
Cash and Cash equivalents	**26**	215,058		139,421
Total current assets			455,250	456,944
Temporary borrowing	**37**	-2,327		-77,843
Short term Lease Liability	**37**	-4,462		-4,852
Short term provisions	**23**	-24,694		-29,378
Creditors	**25**	-227,581		-261,008
Total Current liabilities			-259,064	-373,081
Creditors due after one year	**25**	-27,970		-3,895
Provisions	**23**	-17,296		-17,896
Long-term borrowing	**37**	-1,023,575		-1,025,805
Other Long Term Liabilities	**19/24/36**	-1,154,942		-1,133,528
Capital Grants Receipts in Advance	**14**	-23,887		-37,501
Long Term Liabilities			-2,247,670	-2,218,625
Net Assets			57,001	180,374
Usable Reserves	**20**	-385,656		-321,322
Unusable Reserve	**21**	328,655		140,948
Total Reserves			-57,001	-180,374

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

	Notes	2012-2013 £'000	2011-2012 £'000
Net (Surplus) or deficit on the provision of services		106,045	11,984
Adjustments to net surplus or deficit on the provision of services for non cash movements	**27**	-376,118	-365,264
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**27**	169,367	224,284
Net cash flows from operating activities	**28**	-100,706	-128,996
Investing Activities	**29**	-75,649	13,204
Financing Activities	**30**	100,718	43,681
Net increase(-) or decrease in cash and cash equivalents		-75,637	-72,111
Cash and cash equivalents at the beginning of the reporting period		139,421	67,310
Cash and cash equivalents at the end of the reporting period	**26**	215,058	139,421

Note 1. Basis for Preparation/General

The notes to the financial statements on the following pages are in order of significance, primarily based on aiding an understanding of the key drivers of the financial position of the Council, whilst maintaining the grouping of notes between the income and expenditure statement and the balance sheet where appropriate.

The notes relating to specific financial statement lines now include the corresponding accounting policy. As a result there is not a separate principal accounting policies note but note 2 details general accounting policies where there are not accompanying notes.

The content and presentation of the accounts for 2012-13 has been reviewed. This has resulted in removing notes that were deemed immaterial and presenting the notes in an order which is of most importance to the reader.

Details of the order of the notes can be found in the index on page 2 of the financial statements.

Note 2. General Accounting Policies (where there is no accompanying note)

General

The Council is required to prepare a Statement of Accounts by the Accounts and Audit Regulations 2011 in accordance with proper accounting practices. The Accounts of Kent County Council have been compiled in accordance with the Code of Practice on Local Council Accounting in the UK 2012-13 supported by International Financial Reporting Standards. These accounts are prepared in accordance with the historical cost convention, modified for the valuation of certain categories of non current assets and financial instruments. They are also prepared on a going concern basis.

Accruals of Income and Expenditure

The 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.

Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

Accounting for Schools

The accounting policies for Schools are in line with the Council's and therefore are complied on an accruals basis. Schools balances are consolidated into the Council's accounts, with income and expenditure being attributed to the appropriate service line in the Comprehensive Income and Expenditure Statement and assets and liabilities included on the Balance Sheet. The Schools Reserve is held in a separate reserve and are located within Usable Reserves.

Intangible Assets

Assets that do not result in the creation of a tangible asset (which is an asset that has physical substance), 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.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. The Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure its incurs and the share of income it earns from the activity of the operation. The proportion of transactions and balances of Jointly Controlled Operations that relate to the Council are included in the Council's single entity accounts.

Support service and overheads

The cost of support services and overheads are allocated to services on the following basis in accordance with Service Reporting Code of Practice 2012-13 (SerCOP):

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multifunctional, democratic organisation.

- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

Accounting for Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

Inventories

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

Carbon Reduction Commitment Allowances

The Authority is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme will last until 31 March 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide as energy is used. As carbon dioxide is emitted a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured as the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the cost of the Authority's services and is apportioned to services on the basis of energy consumption.

Note 3. Accounting Standards that have been issued but have not yet been adopted

For 2012-13 there are amendments to the following accounting standards:

IAS 19 Employment Benefits - new class of components to be recognised in the financial statements, significantly the removal of the expected return on assets to be replaced by net interest costs. If the amendment had been adopted in 2012-13 the amount recognised in the Comprehensive Income and Expenditure Account would have been £92.5m compared with the £73.9m which has been recognised.

IFRS 7 Financial Instruments Disclosures - Offsetting Financial Assets and Liabilities.

IAS 12 Deferred Tax - Recovery of Underlying Assets. This amendment impacts on Group Accounts and there will be no impact as we do not produce Group Accounts.

The impact of the above amendments will be in the 2013-14 accounts.

Note 4. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Council will make a provision where a future event is uncertain but there is a legal or constructive obligation.

- There is currently inconsistency across Local Authorities regarding the accounting treatment for different types of schools. Until the announcement of a definitive requirement by CIPFA, expected for the 2013-14 Statement of Accounts, the Council treats Community and Voluntary Controlled schools as on balance sheet and all other types of schools as off balance sheet.

Note 5. Assumptions Made about the Future and Other Major Sources of Estimation

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £501k for every year that useful lives had to be reduced. Over a period of 5 years (before the next valuation takes place) this could result in an error of £2.505m - this is not material.
	Under component accounting the authority has applied a de minimus threshold for each category of asset that is revalued in the current year. In 2012/13 the following de minimus thresholds were applied: Primary Schools: £2m Secondary Schools: £8m Special Schools: £2m Families & Social Care establishments: £2m Highways & Waste Depots: £1m County Offices: £2m Libraries: no componentisation Adult Education Centres: no Youth & Community Centres: no	If all assets had been componentised the difference between depreciation under componentisation and non componentisation is £1.33m. Over 5 years this would give a difference of £6.65m - this is not material.

Note 5 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Leases	For a number of leases identified by schools and directorates we have had to make assumptions on the fair value of the assets. This has been obtained by identifying the current costs of similar assets.	As the total depreciated value of leases is only £1,024k the effect of the estimation is not material.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation from corporate bonds decreased from 1.3% to 1.0% during the year due to a decrease in corporate bond yields. Asset performance being less than expected over the year has also led to an increase in pension deficit. During 2012-13, the Council's actuaries advised that the net pensions liability had increased by £2.6m as a result of estimates being corrected due to experience and increased by £157m attributable to the updating of the assumptions.

Note 6. Officers Remuneration

Accounting Policy

Employee Benefits

Benefits Payable During Employment
Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Service lines within the Comprehensive Income and Expenditure Statement, but is then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits
Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to Service lines in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits
The Council participates in two different pension schemes. Both schemes provide members with defined benefits (retirement lump sums and pensions), related to pay and service. The schemes are as follows:

- **Teachers**

The Council 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 and no liability for future payments of benefits is recognised in the Balance Sheet.

- **Other employees**

The liabilities of the Kent pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

The assets of Kent pension fund attributable to the Council are included in the Balance Sheet at their fair value:
– quoted securities – current bid price
– unquoted securities – professional estimate
– unitised securities – current bid price
– property – market value.

The change in the net pensions liability is analysed into seven components:

– current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

– past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

– interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

– expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

– gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

– actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve

– contributions paid to the Kent pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits
The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Note 6 - Officers Remuneration

Summary of employees receiving remuneration of £50,000 or more during the period 1 April 2012 to 31 March 2013

Regulations require the Council to disclose remuneration for all employees earning over £50,000 plus additional disclosures for those senior officers reporting directly to the Head of Paid Services and those earning over £150,000.

This note shows the number of employees whose total remuneration in the financial year 2012-13, 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. This includes all payments, regardless of whether or not they were due in the year e.g. advance payment of salary 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

d) but excludes Employer's Pension contributions

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2013	Schools 31 March 2013	Non-Schools 31 March 2012	Schools 31 March 2012
50,000 - 54,999	152	216	175	242
55,000 - 59,999	86	182	103	174
60,000 - 64,999	48	96	68	124
65,000 - 69,999	28	55	37	70
70,000 - 74,999	32	29	37	27
75,000 - 79,999	6	16	15	18
80,000 - 84,999	4	16	10	14
85,000 - 89,999	6	12	10	16
90,000 - 94,999	7	6	9	7
95,000 - 99,999	3	10	7	8
100,000 - 104,999	5	4	5	5
105,000 - 109,999	5	2	2	3
110,000 - 114,999	3	1	3	0
115,000 - 119,999	0	0	0	0
120,000 - 124,999	1	0	0	0
125,000 - 129,999	0	1	2	0
130,000 - 134,999	2	0	1	0
135,000 - 139,999	0	0	0	0
140,000 - 144,999	0	0	1	0
145,000 - 149,999	0	0	0	0
150,000 - 154,999	1	0	0	0
155,000 - 159,999	1	0	1	0

Note 6 - Officers Remuneration

Remuneration	**Total number of employees**			
(£)	Non-Schools 31 March 2013	Schools 31 March 2013	Non-Schools 31 March 2012	Schools 31 March 2012
160,000 - 164,999	2	0	0	0
165,000 - 169,999	0	0	0	0
170,000 - 174,999	0	0	1	0
175,000 - 179,999	0	0	0	0
180,000 - 184,999	0	0	0	0
185,000 - 189,999	1	0	0	0
190,000 - 194,999	0	0	2	0
195,000 - 199,999	0	0	0	0
200,000 - 204,999	0	0	0	0
205,000 - 209,999	0	0	0	0
210,000 - 214,999	0	0	0	0
215,000 - 219,999	0	0	1	0
555,000 - 559,999			1	0
Total	**393**	**646**	**491**	**708**

The number of employees shown against the above remuneration band will not tie up with the information on the following pages. This is because the table above refers to remuneration which includes items a-c as per the note on the previous page, whereas the following table relates purely to salary entitlement in the year, and only those staff whose annual salary is £150k or over should be included. The following tables are set-out in the format prescribed in the CIPFA Code, issued by The Chartered Institute of Public Finance and Accountancy.

The reduction in the number earning over £50k is mainly due to the restructure of the Council, and the transfer to Academy status for a significant number of schools; figures for Academies are not included in the above table.

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2012-13 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Business Strategy & Support - David Cockburn		187,719					187,719	39,734	227,453
Corporate Director Customer & Communities - Amanda Honey		159,075	1,530				160,605	35,003	195,608
Corporate Director Education Learning & Skills - Patrick Leeson		154,530		7,070			161,600	33,936	195,536
Corporate Director Families & Social Care - Andrew Ireland		156,348					156,348	32,833	189,181
Corporate Director Enterprise & Environment - Mike Austerberry		151,500					151,500	0	151,500

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2012-13 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Director of Governance & Law - Geoff Wild		129,553		2,610			132,163	28,813	160,976
Corporate Director Finance & Procurement - Andy Wood		121,200					121,200	25,452	146,652
Corporate Director Human Resources - Amanda Beer		112,716					112,716	23,670	136,386

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Group Managing Director - Katherine Kerswell	1	139,806			420,000		559,806	29,359	589,165
Corporate Director Business Strategy & Support - David Cockburn		173,991					173,991	36,225	210,216
Corporate Director Customer & Communities - Amanda Honey		159,075					159,075	32,130	191,205
Corporate Director Families & Social Care - Andrew Ireland	2	64,500					64,500	13,545	78,045
Corporate Director Enterprise & Environment - Mike Austerberry		150,000					150,000	31,500	181,500

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Education Learning & Skills - Patrick Leeson	3	69,919		3,199			73,118	15,355	88,473
Corporate Director Finance & Procurement - Lynda McMullan	4	45,450			172,000		217,450	9,545	226,995
Interim Corporate Director Families & Social Care - Malcolm Newsam	5	195,000					195,000		195,000
Interim Corporate Director Education Learning & Skills - Andy Roberts	6	101,800					101,800		101,800
Director of Governance & Law - Geoff Wild		105,900		22,370			128,270	26,937	155,207

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Post Holder	Notes	Salary (Including Fees & Allowances) £	Bonuses £	Allowances £	* Compensation for loss of Office e.g. Redundancy Payment £	Other £	Total Remuneration excl pension Contributions £	Employer Pension Contributions £	Total Remuneration incl pension Contributions £
Corporate Director Finance & Procurement - Andy Wood		114,727					114,727	24,093	138,820
Corporate Director Human Resources - Amanda Beer		111,600					111,600	23,436	135,036

* This includes all contractual entitlements. Both sums are subject to Confidentiality Agreements

Note 6 - Officers Remuneration

The remuneration paid to the Authority's senior employees for 2011-12 is as follows:

Notes	
1	Ms Kerswell left KCC during December 2011. The annualised salary for this post was £197,000.
2	Mr Ireland joined KCC in November 2011.
3	Mr Leeson joined KCC in October 2011.
4	Ms McMullan left KCC during July 2011. The annualised salary for this post was £136,350.
5	The fee paid for Mr Newsam was for 32 weeks interim employment between April 2011 - November 2011. The figure shown is the amount paid to the recruitment agency and not to the individual.
6	The fee paid to Mr Roberts was for 30 weeks interim employment between April 2011 and October 2011. The figure shown is the amount paid to the recruitment agency and not the individual.

Note 6 - Officers Remuneration

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below. Of the total redundancies made 54% of those are compulsory redundancies. We do not have detail across bands £0 - £20,000, £20,001 - £40,000 and £40,001 - £80,000 and have applied this percentage equally to each of those bands. The total cost in 2012-13 of £3.9m includes schools and commitments in 2013-14.

(a) Exit package cost band (inc special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band [(b) + (c)]		(e) Total cost of exit packages in each band	
	2011/12	**2012/13**	**2011/12**	**2012/13**	**2011/12**	**2012/13**	**2011/12 £**	**2012/13 £**
100,001-450,000	1	0	1	0	2	0	592,000	0
80,001-100,000	0	0	0	0	0	0	0	0
40,001-80,000	3	3	6	2	9	5	419,310	247,670
20,001-40,000	109	27	31	23	140	50	3,650,979	1,414,497
0-20,000	666	208	188	178	854	386	5,346,184	2,252,577
Total	**779**	**238**	**226**	**203**	**1,005**	**441**	**10,008,473**	**3,914,744**

Note 7. Members Allowances

The Council paid the following amounts to members of the Council during the year.

	2012-13 £'000	2011-12 £'000
Salaries	0	0
Allowances	1,646	1,662
Expenses	139	140
Total	**1,785**	**1,802**

In 2012-13 the cost of the County Cars were £52k.

Note 8. Deposits in Icelandic

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed and the Landbanki's UK subsidiaries Heritable went into administration. The Council had £50.35m deposited across these 3 institutions, with varying maturity dates and interest rates. Of the £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 calculated loss for the Council is £0.5m based on the latest update of CIPFA LAAP Bulletin 82.

Investments included in the current assets figure in the Balance Sheet include the following deposits that have been impaired because of the financial difficulties experienced by Icelandic Banks.

Bank	Amount Invested £000's	Interest Rate	Amount due as at Claim Date £000's	Repayments to date £000's
Heritable	1,500	6.15	1,513	1,169
Heritable	2,000	6.19	2,113	1,633
Heritable	2,000	5.6	2,010	1,553
Heritable	3,250	6.1	3,253	2,513
Heritable	4,600	5.9	4,717	3,645
Heritable	5,000	6.25	5,004	3,866
Glitnir	5,000	5.5	5,276	5,127
Glitnir	5,000	6.3	5,212	5,065
Glitnir	5,000	6	5,150	5,004
LBI hf	2,000	6.19	2,125	1,019
LBI hf	5,000	6	5,300	2,541
LBI hf	5,000	5.96	5,291	2,536
LBI hf	5,000	5.93	5,028	2,411
Total	**50,350**		**51,992**	**38,082**

Note 8 - Iceland and Note 9 - Material Items of Income and Expenditure

Heritable

Heritable bank is a UK registered bank under English Law. The company was placed in administration on 7 October 2008. The Council has received dividends up to 31 March 2013 of 77.2% and as at 31 March 2013, the calculated return of our investment is 88% as per LAAP Bulletin 82 update 7. In calculating the impairment the Council has followed LAAP 82, which makes the following assumptions re timing of the recoveries:

July 2013	2.00%	Jan-14	8.80%

Since the Lap Bulletin was issued the administrator has sold a substantial part of the remaining business and a large dividend is expected in August 2013.

LBI hf (formerly Landsbanki)

As at the 31 March 2013 the Council received 49.65% of the recoverable amount. The estimate of the recoverable amount from this Iceland-domiciled bank is 100%. This return is anticipated over the following period:

December 2013	7.50%	December 2017	7.50%
December 2014	7.50%	December 2018	7.50%
December 2015	7.50%	December 2019	5.35%
December 2016	7.50%		

Glitnir Bank hf

The Council received 100% of the recoverable amount during 2011-12.

The 100% recovery received £2.96m in Icelandic Kroner for Iceland-domiciled accounts during 2011-12. This is placed in Escrow accounts and is reflected in the balance sheet as a short term investment.

Note 9. Material Items of Income and Expense

<u>Accounting Policy</u>

Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

Material Items of Income and Expense

The net loss on disposal of non-current assets of £98.5m includes £91.7m which relates to schools transferring to academy status.

Note 10. Adjustments between accounting basis and funding basis under regulations

31 March 2013	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-108,230			108,230
Impairment charge where assets have been revalued in year*	-31,483			31,483
Revaluation losses on Property Plant and Equipment	-20,095			20,095
Movements in the fair value of Investment Properties	-909			909
Amortisation of intangible assets	-863			863
Capital Grants and contributions applied	143,399			-143,399
In year revenue expenditure funded from capital under statute	-73,953			73,953
Prior year revenue expenditure funded from capital under statute	-14807			14,807
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	-89,503			89,503
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	60,993			-60,993
Capital expenditure charged against the General Fund	27,992			-27,992
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement			-135,782	135,782
Application of grants to capital financing transferred to the Capital Adjustment Account			102,263	-102,263
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		-24,358		24,358

Note 10 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Use of the Capital Receipts Reserve to finance new capital expenditure		5,673		-5,673
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-8,965			8,965
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-600			600
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-73,895			73,895
Employer's pensions contributions and direct payments to pensioners payable in the year	69,409			-69,409
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	-515			515
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,849			-3,849
Total Adjustments	**-118,176**	**-18,685**	**-33,519**	**170,380**

Note 10 - Adjustments between accounting basis & funding basis under regulations

31 March 2012	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	-103,380			103,380
Impairment charge where assets have been revalued in year*	-22,787			22,787
Revaluation losses on Property Plant and Equipment	-38,469			38,469
Movements in the fair value of Investment Properties	4,119			-4,119
Amortisation of intangible assets	-498			498
Capital Grants and contributions applied	198,840			-198,840
In year revenue expenditure funded from capital under statute	-86,110			86,110
Prior year revenue expenditure funded from capital under statute	-13004			13,004
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	-92,364			92,364
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	55,830			-55,830
Capital expenditure charged against the General Fund	24,828			-24,828
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement			-179,812	179,812
Application of grants to capital financing transferred to the Capital Adjustment Account			166,601	-166,601
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement		-9,194		9,194

Note 10 - Adjustments between accounting basis & funding basis under regulations

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable reserves
	£'000	£'000	£'000	£'000
Use of the Capital Receipts Reserve to finance new capital expenditure		10,801		-10,801
Adjustments primarily involving the Deferred Capital Receipts Reserve:				
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	-5,365			5,365
Adjustment primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	-88			88
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-41,524			41,524
Employer's pensions contributions and direct payments to pensioners payable in the year	73,074			-73,074
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	237			-237
Adjustment primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	3,250			-3,250
Total Adjustments	**-43,411**	**1,607**	**-13,211**	**55,015**

* Amounts held on assets under construction or spend incurred in year which relate to assets that have been revalued in 2012-13 have been written off directly to the CIES.

Note 11. Other Operating Expenditure

	2012-13 £000's	2011-12 £000's
Levies	729	735
Gains/Losses on the disposal of non-current assets	98,468	97,728
	99,197	98,463

Note 12. Financing and investment income and expenditure

	2012-13 £000's	2011-12 £000's
Interest payable and similar charges	78,262	77,292
Pensions interest cost and expected return on pensions assets	20,550	8,062
Interest receivable and similar income	-6,632	-4,864
Income and expenditure in relation to investment properties and changes in their fair value	650	-4,220
Other investment income	-4,223	-4,333
	88,607	71,937

Note 13. Taxation and non specific grant incomes

Collection Fund Accounting Policy

To reflect that billing authorities act as agents for major preceptors in collecting their share of Council Tax, Council Tax transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of Council Tax collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing Council from Council Tax debtors that belongs proportionately to the billing Council and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

	2012-13 £000's	2011-12 £000's
Income from Council Tax	-579,639	-575,917
Non-ringfenced government grants	-487,230	-447,528
	-1,066,869	-1,023,445

Note 14. Grant Income

Accounting Policy

Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line or Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012-13:

	2012-13	2011-12
	£'000	£'000
Credited to Taxation and Non Specific Grant Income		
Council Tax	-579,639	-575,917
Council Tax Freeze	-14,448	-14,342
Revenue Support Grant	-303,447	-315,987
Local Services Support Grant	-3,436	-3,125
Other DFES/DofH Grants	-90,713	
New Homes Bonus	-2,839	-1,379
Capital Government Grants and Contributions	-72,347	-112,695
Total	-1,066,869	-1,023,445
Credited to Services		
Dedicated Schools Grant	-724,412	-792,799
Young Persons Learning Agency/Education Funding Agency	-44,116	-57,619
Other DFES Grants	-99,922	-168,111
Department of Health Grants	-1,970	-38,126
Asylum	-13,454	-12,166
Other	-44,103	-32,289
Total	-927,977	-1,101,110

KCC's share of surplus on the Council Tax has reduced by £0.515m (2011-12 surplus increased by £0.237m). See the Collection Fund Adjustment Account detailed in Note 21.

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

	2012-13	2011-12
	£'000	£'000
Capital Grants Receipts in Advance		
Department for Education	-6,952	-11,817
Other Grants	-2,891	-2,265
Other Contributions	-14,044	-23,419
Total	-23,887	-37,501

Note 15. Property, Plant and Equipment

Accounting Policy

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment above our de minimus of £10k (£2k in schools) is capitalised on an accruals basis. In this context, enhancement means work that has substantially increased the 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".

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

The Council 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. Revaluation gains are written to the Revaluation Reserve and revaluation losses will be written off against any balance on the Revaluation Reserve for that asset or to the Comprehensive Income and Expenditure Statement where no revaluation gain exists in the reserve for that asset. These amounts are then written out through the Movement in Reserves Statement so that there is no impact on Council Tax.

Note 15 - Property, Plant and Equipment

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

Where impairment losses are identified, they are accounted for by:

- writing down the balance on the Revaluation Reserve for that asset up to the accumulated gains
- writing down the relevant service line in the Comprehensive Income and Expenditure Statement where there is no balance or insufficient balance on the Revaluation Reserve

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

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	- useful life as determined by the valuer
Vehicles, plant and equipment	- 3-25 years
Roads & other highways infrastructure	- 20 years
Community assets	- nil
Assets under construction	- nil
Investment properties, Assets Held for Sale	- nil
Heritage Assets	- nil

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Property will be split into five components:

Land

Structure

Mechanical and Electrical

Fixtures and Furnishings

Temporary Buildings

These components are a significant value of the asset as a whole and have significantly different useful lives.

In determining the extent to which we apply componentisation we have taken into consideration the material impact of not componentising assets within individual asset classes below a certain threshold. More detail on this can be found under the estimation techniques note on page 17.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

Assets are generally defined as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use. This excludes from consideration any assets that are going to be abandoned or scrapped at the end of their useful lives. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Note 15 - Property, Plant and Equipment

Gains and Losses on Disposal of Non Current Assets

When an asset is disposed of or decommissioned, the difference between the capital receipt from the sale and the carrying amount of the asset in the Balance Sheet, after identified costs have been removed, is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Capital receipts

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. Conditional receipts are not included in these figures until it is prudent to do so.

Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Restatement to previous years Land and Buildings Note

In 2012-13 an extensive review of the Council's property asset registers was undertaken. This included reviewing the accounting treatment of every asset since April 2007 when the Revaluation Reserve was introduced. This work led to a different interpretation of how certain figures within Note 15, Property, Plant & Equipment are presented. Schools which have transferred to academy, foundation or voluntary aided status are now included within 'Derecognition - Disposal'. Previously this derecognition was included under 'Derecognition - Other'. We have therefore moved £105,661k from 'Derecognition - Other' to 'Derecognition - Disposals' in the disclosure note for 2011-12.

'Other Movements in cost or valuation' - this line includes transfers into or out of Property, Plant & Equipment or where an asset has moved between headings within the note. It also includes the reversal of the write out of depreciation upon revaluation where previously this had been included within the 'Revaluation increases/(decreases) recognised in the Revaluation Reserve'. The new presentation better reflects the actual revaluation movement to the Revaluation Reserve or Surplus/Deficit on the Provision of Services after depreciation has been written out. We have therefore moved -£15,334k from 'Revaluation increases/(decreases) recognised in the Revaluation Reserve' to 'Other Movements in cost or valuation' in the 2011-12 disclosure note.

We have removed £45,232k from 'Impairment (losses)/reversals recognised in the Revaluation Reserve' and £48,575k from 'Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services'. Previously we assumed that this meant downward valuations affecting the Revaluation Reserve and the CIES, but believe this is not the correct interpretation. This treatment also meant that we had to put the reverse of this value in 'Other movements in Depreciation and Impairment' to ensure that the note balanced, we have therefore removed -£93,807k from this line in the 2011-12 disclosure note.

These changes have no impact on the Balance Sheet for 2011-12.

Note 15. Property, Plant & Equipment

Movement on balances - Movements in 2012-2013

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation at 1 April 2012	1,289,131	85,138	1,310,691	8,818	242,674	39,409	2,975,861	119,315
Additions	87,088	7,949	135,669	344	34,324	537	265,911	2,442
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	4,378					182	4,560	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-19,235					-818	-20,053	43
Derecognition - Disposals	-126,220	-4,280			-608	-1,105	-132,213	-10,466

Property, Plant & Equipment - Movements in 2012-2013

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other					-6,051		-6,051	
Assets reclassified (to) / from Held for Sale	-2,260					-548	-2,808	
Other Movements in cost or valuation	-24,052				-181,430	7,468	-198,014	
At 31 March 2013	**1,208,830**	**88,807**	**1,446,360**	**9,162**	**88,909**	**45,125**	**2,887,193**	**111,334**

Property, Plant & Equipment - Movements in 2012-2013

	Land and Buildings £'000	Vehicles, Plant and Equipment £,000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment at 1 April 2012	-77,923	-58,756	-626,566			-1,045	-764,290	-6,958
Depreciation Charge	-31,145	-10,053	-65,534			-1,530	-108,262	-2,682
Depreciation written out	16,169					438	16,607	
Impairment (losses) / reversals recognised in the Revaluation Reserve	-100						-100	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-4,859				-26,624		-31,483	

Property, Plant & Equipment - Movements in 2012-2013

	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	7,988	4,164				11	12,163	516
Derecognition - Other							0	
Other movements in Depreciation and Impairment	5,703	-110				-553	5,040	
At 31 March 2013	**-84,167**	**-64,755**	**-692,100**	**0**	**-26,624**	**-2,679**	**-870,325**	**-9,124**
Net Book Value								
At 31 March 2013	**1,124,663**	**24,052**	**754,260**	**9,162**	**62,285**	**42,446**	**2,016,868**	**102,210**
At 31 March 2012	**1,211,208**	**26,382**	**684,125**	**8,818**	**242,674**	**38,364**	**2,211,571**	**112,357**

Note 15. Property, Plant & Equipment
Comparative Movements in 2011-12

	Land and Buildings Restated £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
at 1 April 2011	1,252,407	82,172	1,202,868	8,227	388,797	37,851	2,972,322	116,467
Additions	144,480	8,571	118,028	949	92,774	5,730	370,532	2,848
Donations								
Revaluation increases / (decreases) recognised in the Revaluation Reserve	38,284					230	38,514	
Revaluation increase / (decreases) recognised in the Surplus / Deficit on the Provision of Services	-36,783					-1,550	-38,333	
Derecognition - Disposals	-109,125	-5,605				-2,643	-117,373	

Property, Plant & Equipment - Comparative Movements in 2011-12

	Land and Buildings Restated £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Cost or Valuation								
Derecognition - Other				-358	-8,879		-9,237	
Assets reclassified (to) / from Held for Sale	-798					-780	-1,578	
Other Movements in cost or valuation	666		-10,205		-209,612	571	-218,580	
At 31 March 2012	**1,289,131**	**85,138**	**1,310,691**	**8,818**	**263,080**	**39,409**	**2,996,267**	**119,315**

Property, Plant & Equipment - Comparative Movements in 2011-12

	Land and Buildings Restated £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
at 1 April 2011	-65,311	-52,564	-566,933			-1,865	-686,673	-4,083
Depreciation Charge	-32,720	-10,558	-59,633			-729	-103,640	-2,875
Depreciation written out	15,334					1,892	17,226	
Impairment (losses) / reversals recognised in the Revaluation Reserve						4,959	4,959	
Impairment (losses) / reversals recognised in the Surplus / Deficit on the Provision of Services	-2,251				-20,406	-130	-22,787	

Property, Plant & Equipment - Comparative Movements in 2011-12

	Land and Buildings Restated £'000	Vehicles, Plant and Equipment £'000	Roads and other Highways Infrastructure £'000	Community Assets £'000	Assets under Construction £'000	Surplus Assets £'000	Total £'000	PFI Assets included in Property, Plant and Equipment £'000
Accumulated Depreciation and Impairment								
Derecognition - Disposals	379	4,479				6	4,864	
Derecognition - Other	3,637						3,637	
Other movements in Depreciation and Impairment	3,009	-113				-5,178	-2,282	
At 31 March 2012	**-77,923**	**-58,756**	**-626,566**	**0**	**-20,406**	**-1,045**	**-784,696**	**-6,958**
Net Book Value								
At 31 March 2012	**1,211,208**	**26,382**	**684,125**	**8,818**	**242,674**	**38,364**	**2,211,571**	**112,357**
At 31 March 2011	**1,187,096**	**29,608**	**635,935**	**8,227**	**388,797**	**35,986**	**2,285,649**	**112,384**

Note 15 - Property, Plant and Equipment

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 Lucy Parker MRICS of Jones Lang Lasalle and Adam Martin MRICS of Jones Lang Lasalle overseen by Andrew Bowyer MRICS of Jones Lang Lasalle. The basis for valuation is set out in the statement of accounting policies, and further explained below.

	Land and buildings	Investment Properties	Total
	£'000	£'000	£'000
Valued at current value in:			
2007-08	189,011	0	189,011
2008-09	511,346	1,000	512,346
2009-10	777,493	6,570	784,063
2010-11	223,774	15,199	238,973
2011-12	424,096	17,594	441,690
2012-13	350,976	4,271	355,247

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 2012-13 all land and buildings which have not had a valuation within the last five years have now been valued, these include Adult Education Centres, Libraries and Youth Centres as well as 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 asset classed as an investment property or asset held for sale a market value/fair value was provided.

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

Although the date of valuations on the valuation report is as at 1st April 2012, many of the valuations take place nearer the end of the financial year. We therefore assume that any spend incurred on these assets in prior years and held under assets under construction plus spend in the current year, has been included within the valuation figures. For completed projects it is therefore our policy to impair this spend and account for the valuation in accordance with IAS 16.

Contractual Liabilities

We are contractually committed to make the following payments over £10m in future years:

	2012 -13
	£000
The Duke of York's Royal Military School	24,346
St Augustine's Academy	14,093
Knole Academy	11,267

Note 16. Capital Expenditure and Financing

Accounting Policy

Government Grants and Contributions

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

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 a non-current asset. The expenditure has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Capital expenditure on assets that do not belong to the council such as Voluntary Aided schools and Academies are charged here and are written out in the year. These charges are reversed out to the Capital Adjustment Account through the Movement in Reserves Statement to mitigate any impact on council tax.

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2012-13 £000's	2011-12 £000's
Opening Capital financing requirement	1,495,873	1,518,146
Capital investment		
Property, Plant and Equipment	106,450	177,200
Intangible assets	826	385
Revenue expenditure funded from capital under statute	73,953	86,110
	1,677,102	1,781,841
Sources of finance		
Capital receipts	-7,290	-10,801
Government grants and other contributions	-115,866	-194,509
Direct revenue contributions	-27,992	-24,828
(MRP/loans fund principal)	-60,993	-55,830
Closing Capital Financing Requirement	1,464,961	1,495,873
Movement	**-30,912**	**-22,273**

	2012-13 £000's	2011-12 £000's
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)		
Increase in underlying need to borrow (unsupported by Government financial assistance)	-30,912	-22,273
Assets acquired under finance leases		
PFI/PPP contracts where no asset is acquired		
Increase/(decrease) in Capital Financing Requirement	**-30,912**	**-22,273**

Note 17. PFI and Similar Contracts

Accounting Policy

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets, written down by any capital contributions.

Non current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator

Note 17 - PFI and Similar Contracts

Value of PFI assets at each balance sheet date and analysis of movement in those values

Value of assets	**6 schools (restated)**	**Swanscombe Schools**	**Westview/ Westbrook**	**Better Homes, Active Lives**	**TOTAL** £'000
As at 31 March 2012	27,176	20,669	9,842	47,319	105,006
Additions	1,422	401	343	276	2,442
Revaluations					
Transfer from/to WIP					
Impairment					
Depreciation	-493	-708	-234	-1,071	-2,506
Derecognition - disposal	-9,951				-9,951
Previous year adjustments				42	42
As at 31 March 2013	18,154	20,362	9,951	46,566	95,033

This note has been restated to reflect a late change to the 2011-12 accounts where PFI schools that were Foundation schools were written out of our books. This change was omitted from this disclosure note.

Value of liabilities resulting from PFI at each balance sheet date and analysis of movement in those values

Finance Lease Liability	**6 schools**	**Swanscombe Schools**	**Westview/ Westbrook**	**Better Homes, Active Lives**	**3 BSF Schools**	**TOTAL** £'000
As at 31 March 2012	76,109	8,971	14,137	58,255	63,999	221,471
Fair value of assets coming into use in-year						0
Liability repaid	-1,548	-133	-257	-958	-1,161	-4,057
As at 31 March 2013	74,561	8,838	13,880	57,297	62,838	217,414

The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. For the 6 Schools PFI, the liability was written down by an initial capital contribution of £4.541m. For the Better Homes, Active Lives PFI the liability was written down by an initial capital contribution of £0.65m.

Details of payments to be made under PFI contracts

6 schools

	Repayment of liability	**Interest**	**Service Charges**	**Lifecycle costs**	**TOTAL** £'000
Within 1 year	1,415	6,510	3,001	815	11,741
Within 2-5 years	6,471	24,757	12,776	4,140	48,144
Within 6-10 years	10,677	27,547	17,851	7,019	63,094
Within 11-15 years	13,694	22,549	20,197	11,372	67,812
Within 16-20 years	22,140	15,343	22,851	10,376	70,710
Within 21-25 years	20,162	3,794	15,128	3,682	42,766

RPIx is used as the basis for indexation in the 6 schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Note 17 - PFI and Similar Contracts

Swanscombe Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	194	1,265	582	345	2,386
Within 2-5 years	914	4,725	2,455	1,812	9,906
Within 6-10 years	2,589	4,887	3,409	1,789	12,674
Within 11-15 years	5,140	2,208	3,432	607	11,387

RPIx is used as the basis for indexation in the Swanscombe schools PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

Westview/Westbrook

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	254	1,073	1,445	386	3,158
Within 2-5 years	1,532	4,050	6,207	1,224	13,013
Within 6-10 years	1,772	4,494	8,818	2,949	18,033
Within 11-15 years	2,770	3,654	10,176	3,091	19,691
Within 16-20 years	5,151	2,203	11,762	1,416	20,532
Within 21-25 years	2,403	186	0	0	2,589

The RPIx and AWE indices are both used as bases for indexation in the Westview/Westbrook PFI contract.
RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract and AWE has been assumed to be 2% higher than this at 4.5% over the same period.

Better Homes, Active Lives

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,067	4,069	0	235	5,371
Within 2-5 years	4,385	15,502	0	1,598	21,485
Within 6-10 years	6,514	17,536	0	2,805	26,855
Within 11-15 years	9,342	14,933	0	2,580	26,855
Within 16-20 years	12,924	11,001	0	2,930	26,855
Within 21-25 years	19,723	5,646	0	1,487	26,856
Within 26-30 years	3,343	237	0	0	3,580

No indexation is applied to the Better Homes, Active Lives PFI contract.

Note 17 - PFI and Similar Contracts

3 BSF Schools

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year	1,288	5,839	1,906	19	9,052
Within 2-5 years	5,513	22,122	8,111	1,210	36,956
Within 6-10 years	9,136	24,474	11,333	3,005	47,948
Within 11-15 years	11,276	19,801	12,822	7,509	51,408
Within 16-20 years	17,648	13,748	14,507	7,777	53,680
Within 21-25 years	17,975	3,583	7,362	1,906	30,826

RPIx is used as the basis for indexation in the BSF Wave 3 PFI contract. RPIx has been assumed to be at 2.5% per annum for the duration of the remainder of this PFI contract.

TOTAL for all PFI Contracts

	Repayment of liability	Interest	Service Charges	Lifecycle costs	TOTAL £'000
Within 1 year - short term	4,218	18,756	6,934	1,800	31,708
Within 2-5 years	18,815	71,156	29,549	9,984	129,504
Within 6-10 years	30,688	78,938	41,411	17,567	168,604
Within 11-15 years	42,222	63,145	46,627	25,159	177,153
Within 16-20 years	57,863	42,295	49,120	22,499	171,777
Within 21-25 years	60,263	13,209	22,490	7,075	103,037
Within 26-30 years	3,343	237	0	0	3,580
Total	217,412	287,736	196,131	84,084	785,363

Swan Valley and Craylands, 6 Group Schools, and 3 BSF 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 straddled 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.

Note 17 - PFI and Similar Contracts

On 24 October 2008, the Council contracted with Kent PFI Company1 Ltd to provide 3 new secondary schools in Gravesend (St John's, Thamesview and Northfleet Technology College) under a Private Finance Initiative (PFI). All three schools opened their new buildings during the 2010-11 financial year. The unitary charge commenced in July 2010, PFI credits commenced in March 2011 and were backdated to July 2010. 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 £250.8 million over the 25 year contract period.

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, £80.75m for the 6 schools and £98.94m for the 3 schools. This approval triggers the payment of a Revenue Support Grant over the life of the schemes of 25 years (Swan Valley and Craylands), 28 years (6 schools) and 25 years (3 schools). This grant amounts to just under £23m (Swan Valley and Craylands), just over £177m (6 schools) and just over £193m (3 schools).

Westbrook and West View

In 2012-13 the Council made payments of £3.6m to Integrated Care Services (ICS) for the maintenance and operation of Westbrook and Westview recuperative care facilities. The Council is committed to making payments of £3.8m for 2013-14 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 2013-14 the Council is committed to making payments estimated at £2.5m 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 (£2.5m was paid in 2012-13). The contract will run until April 2036.

Better Homes Active Lives PFI

In October 2007 the Council signed a PFI contract with Kent Community Partnership (a wholly owned subsidiary of Housing 21) to provide 340 units of which 275 units are Extra Care accommodation, 58 units for people with learning difficulties and 7 units for people with mental health problems. The contract for the provision of services will last until 2038-39. In 2012-13 the Council made payments of £5.4m to the contractor, and is committed to paying the same amount next year, although this will depend on the performance of Kent Community Partnership delivering the services under the contract.

Note 18. Heritage Assets

Accounting Policy

Heritage Assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.

Heritage assets above our de minimus of £10k are recognised in the balance sheet wherever possible at valuation or cost. In most cases, insurance valuations are used. However, the unique nature of many heritage assets makes valuation complex and so where values cannot be obtained, either due to the nature of the assets or the prohibitive cost of obtaining a valuation, they are not recognised in the balance sheet but comprehensive descriptive disclosures are included in the statement of accounts.

An impairment review of heritage assets is carried out where there is physical deterioration of a heritage asset.

	Historic Buildings **£000s**	Artwork - Paintings & Sculptures **£000s**	Archives **£000s**	Historical & Archaeological Artefacts **£000s**	Civic Regalia **£000s**	Total Heritage Assets **£000s**
Cost or Valuation						
At 1 April 2011	**1,114**	**2,268**	**2,331**	**100**	**15**	**5,828**
Additions						
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		74	77		1	**152**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2012	**1,114**	**2,342**	**2,408**	**100**	**16**	**5,980**
Cost or Valuation						
At 1 April 2012	**1,114**	**2,342**	**2,408**	**100**	**16**	**5,980**
Additions	99					**99**
Donations						
Disposals						
Revaluations Increases / (Decreases) recognised in the Revaluation Reserve		508	50		-	**558**
Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services						
At 31 March 2013	**1,213**	**2,850**	**2,458**	**100**	**16**	**6,637**

£458k of the £508k revaluation increase on artwork, paintings and sculptures relates to the Kent Master Collection which was revalued by Christie's in July 2012.

Note 18 - Heritage Assets

Historic Environment & Monuments

Eight **windmills** are included in the balance sheet at a value of £1.102m, which represents spend on these assets. These are either Grade I or II listed buildings and are located across Kent. KCC first took windmills into our care in the 1950s when, with the millers gone, there was no one else to protect these landmark buildings. We now own eight, ranging from Post Mills of Chillenden and Stocks at Wittersham to the magnificent Smock Mill at Cranbrook – the tallest in England.

Kent County Council works with local groups to actively preserve the future of the windmills and to support their repair and, where records exist, restoration. We also encourage improvements to the buildings and sites, to encourage greater public access and greater use of the windmills as an educational resource.

Thurnham Castle, located within White Horse Wood Country Park is a late 11th/early 12th century motte and bailey castle with gatehouse and curtain walls in flint and traces of an oval or polygonal shell keep, built on a steep spur of the North Downs. Above ground remains consist of some surviving sections of walling and earthworks of the main castle mound. This is valued at £111k in the balance sheet which represents spend on the asset. Situated within Shorne Woods Country Park is the site of the medieval manor house **Randall Manor**. The site now consists of below ground archaeological remains, along with earthworks relating to associated fish ponds and field systems.

Hildenborough war memorial consists of a cross shaft with a carved relief of a crucifixion scene. It stands on a plinth on a stepped dais. The inscription to the dead of the First World War is on the front face of the plinth below the cross with names on the side faces and additional names of the fallen on the risers of the steps.

The former World War II Air Raid Wardens' post stands in a fenced and partly walled enclosure at the side of the steps down from Folkestone Road to the approach to Dover Priory railway station. It is a small flat-roofed concrete structure with all apertures boarded up.

Martello Tower No. 5 situated at Folkestone Grammar School is a Scheduled Monument, one of a chain of forts that protected the south coast from the threat of invasion in the Napoleonic period. It stands within the grounds of the school, immediately west of the buildings.

The church of St Martin-le-Grand and remains of the Dover Classis Britannica fort are incorporated and displayed at the Dover Discovery Centre, which houses Dover Library. It was formerly the White Cliffs Experience. The Roman remains relate to the 2nd century fort that occupied the site and the area to the southwest. The church of St Martin-le-Grand was an early foundation that developed through the medieval period. At the time of the Reformation it fell into disuse and buildings were constructed in and around the church. The remains of the church are exposed in the land between the centre and the museum to the northeast.

Artwork

Included in the balance sheet, at insurance valuations, are the following collections:

The Master collection of 16th-19th century prints and drawings, valued at £1,464k and is currently held at the Kent History and Library Centre.

Kent Visual Arts Loan Service, a collection of c. 1500 pieces of original artwork, currently held in storage at Kings Hill, valued at £564k.

The **Antony Gormley Boulders Sculptures**, the sculptors' first professional commission, valued at £500k are currently under restoration and will be held at the Kent History Centre, Maidstone.

Contemporary collection of c. 200 paintings (6 out 7 collections) in storage in Kings Hill, valued at £258k.

KCC Sessions House collection, valued at £64k

Note 18 - Heritage Assets

Archive Collections

Kent County Council looks after its own records and those of its predecessor authorities. In addition it collects and makes accessible other historic records under the terms of the 1962 Public Records Act and the 1972 Local Government Act. These records include those of public bodies such as courts, health trusts and coroners, of district councils and of individuals and organisation in the county. There are about 12kms of records, dating back to 699AD, and they are stored in BS5454 conditions at the new Kent History Centre in Maidstone. Approximately 25% of the records are owned by KCC, the values of which are included in the balance sheet as follows (valuations are insurance valuations unless otherwise specified):

General archive collections - £667k

Knatchbull/Brabourne Manuscripts £1,291k. Family and estate papers relating to the Knatchbull/Brabourne family and comprising accounts, correspondence, legal papers and manorial records.

Rare Books collection £200k based on an informal estimate given by an antiquarian book dealer.

Amherst Family Papers £300k based on a valuation obtained before they were bought via a Heritage Lottery Fund bid.

The **Kent Historic Environment Record** is primarily a digital database (including GIS display) of Kent's archaeological sites, findspots, historic buildings and historic gardens. It also includes paper records of the County aerial photograph series and of archaeological, historic building and historic landscape reports.

Archaeological & historical artefacts

Kent County Council has accepted ownership of the majority of the **HS 1 archaeological archives** as owner of last resort to prevent the collections from being broken up or disposed of. The collections comprise approximately 70 cubic metres of boxes containing archaeological artefacts including pottery, bone, stone, metalwork and worked flint. They are generally of little financial value. The collections are currently housed at Kent Commercial Services, Kings Hill and about half in a store at Dover Eastern Docks.

KCC owns approximately 2,800 objects of social history, archaeological and geological material, housed at **Sevenoaks Museum.** A marble **roman bust & portrait,** found at Lullingstone Villa, dating back to 2nd Century AD are valued in the balance sheet at £60k and £40k respectively. These are currently on long term loan from Sevenoaks Museum to the British Museum.

There is a collection of artefacts kept at **Ramsgate Museum** including prize cups, watches, signs & plaques, pots, printing plates, weights & measures.

Folkestone History Resource Centre, within Folkestone Library houses collections that cover the full range of human history, including archaeology, social, military and civil history, whilst various objects and documents record the maritime history and development of the town. There is also a range of pictorial items of local topographical an biographical interest.

KCC owns **Scientific Calibration Equipment** dating back to the 1800s in the display cases.

Civic Regalia

KCC's silver collection is valued at £16k (insurance value). This includes The Chairman's Plate, The Silver Salver, The Silver Gilt Cup and The 500 Squadron Silver collection.

Note 19. Leases

Accounting Policy

Leasing

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).
- contingent rents, the difference between the rent paid in year and the original amount agreed in the contract (e.g. following a rent review) also debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The long term finance lease liability as at 31 March 2013 is £4.140m.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense on the same basis as rental income.

Note 19 - Leases

The Council as Lessee

Operating Leases

Following a review on the materiality of lease values we found that only operating leases where the Council is the lessee were deemed to be material. The values are represented in the tables below.

The Council has acquired property, motor vehicles and office equipment by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

	31 Mar 2013 £'000	31 Mar 2012 £'000
Not later than one year	14,740	16,865
Later than one year and not later than five years	20,321	25,478
Later than five years	4,410	7,479
	39,471	49,822

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	31 Mar 2013 £'000	31 Mar 2012 £'000
Minimum lease payments	17,976	19,645
Contingent rents	224	412
Sublease payments receivable	0	0
	18,200	20,057

Note 20. Usable Reserves

Accounting Policy

The 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.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council.

Reserve	Balance 1 April 2012 £'000	Net Movement in year £'000	Balance 31 March 2013 £'000	Purpose of Reserve
Usable Capital Receipts	-14,897	-18,685	-33,582	Proceeds of fixed assets available to meet future Capital Expenditure
General Fund	-31,725	0	-31,725	Resources available to meet future unforeseen events
Capital Grants unapplied	-74,002	-33,519	-107,521	See note below
Earmarked Reserves*	-141,314	-22,386	-163,700	See Note 22
Schools Reserve*	-59,088	10,964	-48,124	See over page
Surplus on Trading Accounts*	-296	-708	-1,004	Commercial Services and Oakwood House
Total	**-321,322**	**-64,334**	**-385,656**	

Capital grants unapplied of £107.5m as at 31 March 2013 include schools capital reserves of £621k. This has reduced from the £1,975k held by schools as at 31 March 2012. The remainder reflects Government grants and contributions received in year for projects in progress.

School Reserves

At 31 March 2013 funds held in school revenue reserves stood at £48,124k. These reserves are detailed in the table below.

	Balance at 1 April 2012 £'000	Movement £'000	Balance at 31 Mar 2013 £'000
School delegated revenue budget reserves - committed	-10,022	841	-9,181
School delegated revenue budget reserves - uncommitted	-26,720	-1,977	-28,697
Unallocated Schools budget	-21,990	12,059	-9,931
Community Focused Extended School Reserves	-356	41	-315
	-59,088	10,964	-48,124

Note 21. Unusable 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 2012 £'000	Net Movement in year £'000	Balance 31 March 2013 £'000	Purpose of Reserve
Revaluation Reserve	-308,497	24,124	-284,373	Store of gains on revaluation of fixed assets
Capital Adjustment Account	-445,049	130,296	-314,753	Store of capital resources set aside for past expenditure
Financial Instruments Adjustment Account	16,321	-33	16,288	Movements in fair value of assets and premiums
Collection Fund Adjustment Account	-5,567	515	-5,052	Movement between the I & E and amount require by regulation to be credited to the General Fund
Deferred capital receipts	-8,965	8,965	0	
Pensions Reserves				Balancing account to allow
- KCC	864,182	27,886	892,068	inclusion of Pensions
- DSO	2,209	-197	2,012	Liability in Balance Sheet
Accumulated Absences Account	13,521	-2,038	11,483	This absorbs the differences on the General Fund from accruing for untaken annual leave
Post Employment Account	12,792	-1,811	10,981	This absorbs the differences on the General Fund from accruing for redundancy and retirement costs agreed but not due until future
Total	**140,947**	**187,707**	**328,654**	

Note 21 - Unusable Reserves

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment . The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2012-13		2011-12	
	£'000		£'000	
Balance as at 1st April		-308,497		-292,362
Upward revaluation of assets	-40,333		-89,464	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	35,315		47,172	
Correcting entries to previous year Revaluation Reserve	-225			
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-5,243		-42,292
Difference between fair value depreciation and historical cost depreciation	7,823		8,955	
Accumulated gains on assets sold or scrapped	36,138		17,202	
Amount written off to the Capital Adjustment Account		43,961		26,157
Amount relating to previous years written off to the Capital Adjustment Account		-14,594		
Balance at 31 March		-284,373		-308,497

Note 21 - Unusable Reserves

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2012-13 £'000		2011-12 £'000	
Balance at 1 April		-445,049		-514,218
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:				
- Charges for depreciation and impairment of noncurrent assets	139,713		126,167	
- Revaluation losses on Property, Plant and Equipment	20,095		38,469	
- Amortisation of intangible assets	863		498	
- Revenue expenditure funded from capital under statute	88,760		99,114	
- Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	122,826		103,093	
		372,257		367,341
Adjusting amounts written out of the Revaluation Reserve		-29,367		-26,157
Net written out amount of the cost of non-current assets consumed in the year		-102,159		-173,034
Capital financing applied in the year:				
- Use of the Capital Receipts Reserve to finance new capital expenditure *	-14,638		-1,607	

Note 21 - Unusable Reserves

- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-65,075		-172,420	
- Application of grants to capital financing from the Capital Grants Unapplied Account	-44,804		-13,211	
- Statutory provision for the financing of capital investment charged against the General Fund	-60,993		-55,830	
- Capital expenditure charged against the General Fund	-27,992		-24,828	
		-213,502		-267,896
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		909		-4,119
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		0		0
Balance at 31 March		-314,752		-445,049

* £7.29m relates to in year capital receipt funding and the balance includes a correction to prior years deferred capital receipts.

Note 21 - Unusable Reserves

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April		16,321		17,437
Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	0		0	
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-950		-950	
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements		-950		-950
		917		-166
Balance at 31 March		16,288		16,321

Note 21 - Unusable Reserves

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2012-13	2011-12
	£'000	£'000
Balance at 1 April	866,391	539,124
Actuarial gains or losses on pensions assets and liabilities	23,203	358,817
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	73,895	41,524
Employer's pensions contributions and direct payments to pensioners payable in the year	-69,409	-73,074
Balance at 31 March	894,080	866,391

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2012-13	2011-12
	£'000	£'000
Balance at 1 April	-5,567	-5,330
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	515	-237
Balance at 31 March	-5,052	-5,567

Note 21 - Unusable Reserves

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April	-8,965			-3,600
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement			-8,965	
Transfer to the Capital Receipts Reserve upon receipt of cash	8,965		3,600	
Balance at 31 March		0		-8,965

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April		13,521		20,548
Settlement or cancellation of accrual made at the end of the preceding year	-13,521		-20,548	
Amounts accrued at the end of the current year	11,483		13,521	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		-2,038		-7,027
Balance at 31 March		11,483		13,521

Post Employment Account

The Post Employment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for early retirement and redundancy payments that are agreed in year but are due in future years. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2012-13		2011-12	
	£'000		£'000	
Balance at 1 April		12,793		9,015
Settlement or cancellation of accrual made at the end of the preceding year	-4,245		-3,250	
Amounts accrued at the end of the current year	2,434		7,028	
Amount by which post employment costs are charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from costs chargeable in the year in accordance with statutory requirements		-1,811		3,778
Balance at 31 March		10,982		12,793

Note 22. Earmarked Reserves

A thorough review of our Reserves was carried out as part of the 2011-12 and 2012-13 budget setting process. This resulted in a net draw-down of our reserves, but this will need re-instating over the medium term. A similar process was undertaken as part of the 2013-14 budget setting process and as a result a further draw down of reserves is planned for 2013-14. Our Corporate Director of Finance and Procurement, who is responsible for setting the level of Reserves, has deemed the level to be 'adequate' given the level of risk that we face.

The following describes each of the Earmarked Reserve accounts where the balance is in excess of £0.5m either on 31 March 2012 or 31 March 2013, the sum of which are shown in the tables on pages 73.

Vehicles, plant and equipment (VPE)
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 reserve is to support the implementation of major office strategy projects.

School Maintenance Indemnity Schemes
A reserve which comprises the balance of resources in hand under an arrangement where schools pay into an indemnity scheme operated by KCC Property Group. In return for contributions the reserve covers the cost of maintenance works required at school premises, thereby offering peace of mind to schools where the financial risk and liability is managed by KCC Property Group to ensure that schools' budgets are protected from unexpected maintenance issues.

Note 22 - Earmarked Reserves

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 UK Government.

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 UK Government.

Three Schools PFI Reserve

This has been established to equalise, over time, the budget impact of the unitary charge payments for the 3 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 UK 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 2011-12 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.

Economic Downturn Reserve

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

Council Tax Equalisation Reserve

The reserve will be called upon each year to smooth the impact of the 2012-13 Council Tax freeze plus any amounts need to pay for agreements with individual district councils regarding the impact of Council Tax Support claimants.

Corporate Restructuring Reserve

Given the level of savings required in Local Government over the next few years, this reserve has been set up, largely from underspending in 2009-10, to fund invest to save projects which are essential to helping us re-engineer our business efficiently.

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.

Note 22 - Earmarked Reserves

NHS Support for Social Care Reserve

Kent PCTs were allocated £16.226m in 2011-12 to passport to Kent County Council to aid the provision of Social Care Services which are to benefit health and to improve overall health gain. KCC and the Clinical Commissioning Groups continue to work together to agree jointly appropriate areas for investment which are funded from this reserve.

Drug & Alcohol Treatment Reserve

This reserve is funding from the National Treatment Agency which is to be spent on the provision of substance misuse treatment as qualifying expenditure is incurred.

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.

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 by-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.

Libraries IT PFI final grant settlement reserve

During 2010-11 the UK Government changed the treatment of this grant and instead of paying this in quarterly instalments each year they have now provided a lump sum final payment to bring the total to that which would have been received if the grant had been calculated on an annuity basis from the start. This reserve will be used to replace the annual grant which we had budgeted to receive quarterly through to 2012-13.

Kent Public Services Network (KPSN) Re-procurement Reserve

This reserve represents a 2% surcharge on all services provided to partners under the KPSN contract, to be used to fund the re-procurement of the contract.

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.

Earmarked Reserve to support next years budget

The approved medium term plan for 2013-15 includes support from 2012-13 underspending, which was transferred into this earmarked reserve during 2012-13 to be drawn down in 2013-14.

Note 22 - Earmarked Reserves

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.

Dedicated Schools Grant (Central Expenditure) Reserve

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

Turner Contemporary Investment Reserve

This reserve has been created from the settlement from the original Turner Contemporary gallery design and will be supplemented at the end of each year by the interest earned from its investment as part of KCC balances. It is used to part fund the annual contribution to the Turner Contemporary trust under the grant agreement dated 30th March 2010.

Social Care - Supported Living Costs Reserve

This reserve is required to potentially fund backdated costs in relation to service users in supported living in Kent who are currently funded by other authorities. These costs may arise following legal negotiations.

Commuted Sums Reserve

This reserve has been created to hold the commuted sums which are provided under the Highways Act 1980. The commuted sums are received from developers and used to cover maintenance of the highway infrastructure that has a higher maintenance cost than conventional materials or items. The reserve will be drawn down upon annually to fund additional maintenance costs.

Public Inquiries Reserve

This reserve is required to smooth the fluctuations in costs incurred in major strategic developments and defence of the County Council's position at a public inquiry, either at an appeal against a County Council's enforcement decision or in response to a strategic decision determined by a Local Planning Authority.

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.

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 2013-14 or future years as initiatives are completed. All balances on these reserves are below £0.5m.

Note 22 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2012	Movement	Balance at 31 Mar 2013
	£'000	£'000	£'000
VPE reserve	-5,535	118	-5,417
Special funds	-4,166	680	-3,486
School Maintenance Indemnity schemes	-795	795	0
Kings Hill development smoothing reserve	-1,096	2,000	904
Swanscombe School PFI equalisation reserve	-2,398	532	-1,866
Six schools PFI	-1,527	841	-686
Three schools PFI	-3,721	-739	-4,460
Westview/Westbrook PFI equalisation reserve	-2,153	-252	-2,405
Better Homes Active Lives PFI equalisation reserve	-2,855	-34	-2,889
Reserve for projects previously classified as capital - now revenue	-2,847	1,063	-1,784
Economic Downturn reserve	-16,621	-4,528	-21,149
Council Tax Equalisation reserve	0	-7,500	-7,500
Corporate Restructuring reserve	-1,938	-4,207	-6,145
Supporting People reserve	-2,133	46	-2,087
NHS Support for Social Care reserve	-12,900	1,517	-11,383
Drug & Alcohol Treatment reserve	0	-5,257	-5,257
Environmental initiatives reserve	-2,074	-191	-2,265
Rolling budget reserve	-20,242	1,930	-18,312
Emergency Conditions reserve	-809	0	-809
Elections reserve	-832	-580	-1,412
Dilapidations reserve	-2,520	-855	-3,375
Workforce Reduction reserve	-4,363	-2,680	-7,043
Libraries/IT PFI grant settlement reserve	-1,689	1,689	0
KPSN Re-procurement reserve	-528	-150	-678
IT Asset Maintenance reserve	-4,642	-2,365	-7,007
Earmarked Reserve to support next years budget	-3,512	3,512	0
Prudential Equalisation reserve	-9,707	-2,087	-11,794
Dedicated Schools Grant - Central Expenditure	-8,608	-1,666	-10,274
Turner Contemporary Investment reserve	-2,090	271	-1,819
Social Care Supported Living Costs reserve	-2,001	1,594	-407
Commuted Sums reserve	0	-4,558	-4,558
Public Inquiries reserve	-699	-34	-733
Other	-3,767	1,200	-2,567
Total	-128,768	-19,895	-148,663
Insurance Reserve			
KCC	-3,630	-1,994	-5,624
	-132,398	**-21,889**	**-154,287**
Commercial Services Earmarked Reserves	-3,936	-497	-4,433
EKO	-4,980	0	-4,980
Total Earmarked Reserves	**-141,314**	**-22,386**	**-163,700**

£9.8m of the increase in earmarked reserves for 2012-13 relates to the Drugs and Alcohol Reserve and Commuted Sums Reserve which had previously been treated as a receipt in advance.

Note 22 - Earmarked Reserves

Other Earmarked Reserves	Balance at 1 April 2011	Movement	Balance at 31 Mar 2012
	£'000	£'000	£'000
VPE reserve	-3,955	-1,580	-5,535
Special funds	-5,153	987	-4,166
School Maintenance Indemnity schemes	-936	141	-795
Kings Hill development smoothing reserve	4,404	-5,500	-1,096
Swanscombe School PFI equalisation reserve	-5,950	3,552	-2,398
Six schools PFI	-9,942	8,415	-1,527
Three schools PFI	-1,429	-2,292	-3,721
Westview/Westbrook PFI equalisation reserve	-2,344	191	-2,153
Better Homes Active Lives PFI equalisation reserve	-3,564	709	-2,855
Reserve for projects previously classified as capital - now revenue	-5,300	2,453	-2,847
Economic Downturn reserve	-13,308	-3,313	-16,621
Corporate Restructuring reserve	-2,667	729	-1,938
Supporting People reserve	-3,178	1,045	-2,133
NHS Support for Social Care reserve	0	-12,900	-12,900
Environmental initiatives reserve	-2,425	351	-2,074
Rolling budget reserve	-11,349	-8,893	-20,242
Emergency Conditions reserve	-1,309	500	-809
Elections reserve	-422	-410	-832
Dilapidations reserve	-1,643	-877	-2,520
Workforce Reduction reserve	-4,363	0	-4,363
Libraries/IT PFI grant settlement reserve	-2,270	581	-1,689
KPSN Development reserve	-1,042	1,042	0
KPSN Re-procurement reserve	-373	-155	-528
IT Asset Maintenance reserve	-3,898	-744	-4,642
Earmarked Reserve to support next years budget	0	-3,512	-3,512
Prudential Equalisation reserve	-10,104	397	-9,707
Dedicated Schools Grant - Central Expenditure	-4,381	-4,227	-8,608
Turner Contemporary Investment reserve	-3,158	1,068	-2,090
Social Care Supported Living Costs reserve	-1,371	-630	-2,001
Public Inquiries reserve	-635	-64	-699
Other	-4,375	608	-3,767
Total	-106,440	-22,328	-128,768
Insurance Reserve			
KCC	-3,099	-531	-3,630
LATS Reserve			
Landfill Allowance Taxation Scheme	-1,208	1,208	0
	-110,747	**-21,651**	**-132,398**
Commercial Services Earmarked Reserves	-2,332	-1,604	-3,936
EKO	-4,985	5	-4,980
Total Earmarked Reserves	**-118,064**	**-23,250**	**-141,314**
Correction to late entry put through on Insurance Fund in 10-11	-27	27	0
	-118,091	-23,223	-141,314

Note 23. Provisions

Accounting Policy

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. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. The most significant provision made is for insurance claims. In addition, provision is made for outstanding income where there is doubt as to whether it will be realised.

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.

The Post Employment Provision covers the costs of early retirements, redundancy costs and any other post employment costs for ex-employees/employees who have confirmed leaving dates.

The Accumulated Absences Provision is required to cover the costs of annual leave entitlements carried over to the following financial year. If an employee were to leave, they would be entitled to payment for this untaken leave.

	Insurance	Post Employment	Accumulated Absences	Other Provisions	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Short Term					
Balance at 1 April 2012	-5,976	-6,706	-13,521	-3,174	-29,377
Additional Provisions made in 2012-13	-3,923	-4,843	-8,216	-1,243	-18,225
Amounts used in 2012-13	4,464	6,292	10,254	892	21,902
Unused amounts reversed in 2012-13		237		769	1,006
Balance at 31 March 2013	**-5,435**	**-5,020**	**-11,483**	**-2,756**	**-24,694**
Long Term					
Balance at 1 April 2012	-9,348	-8,548			-17,896
Additional/Reduction in Provisions made in 2012-13	-109	-89		-1,375	-1,573
Amounts used in 2012-13					0
Unused amounts reversed in 2012-13		2,173			2,173
Balance at 31 March 2013	**-9,457**	**-6,464**	**0**	**-1,375**	**-17,296**
Total Provisions at 31 March 2013	**-14,892**	**-11,484**	**-11,483**	**-4,131**	**-41,990**

Insurance

Included within the insurance provision is £600k for the MMI provision.

Post Employment

The provision relates to early retirements and redundancies, and are individually insignificant.

Accumulated Absences

The provision relates to annual leave entitlement carried forward at 31 March 2013. It will not be discharged until a cash settlement is made or an employee takes their settlement, or the liability has ceased.

Other Provisions

A provision of £1,171k for Carbon Reduction Commitment is include within Other provisions. All other provisions are individually insignificant.

Note 24 - Amounts owed to the Council by debtors

The fair value for long term investments at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

	At 31 March 2013 £000's	At 31 March 2012 £000's
Long Term debtors:		
Medway Council (transferred debtor)	43,528	45,342
Public bodies	1,550	1,842
Other	14,681	13,988
	59,759	61,172
Other debtors:		
Government Departments	22,491	33,804
Other Local Authorities	8,348	7,734
NHS Bodies	1,058	1,866
General debtors	110,276	105,590
Payments in advance	21,362	21,788
EKO	213	234
	163,748	171,016

Capital debtors amounting to £3.6m are included in the Accounts at 31 March 2013 (£11.7m in 2011-12). Capital debtors relate to grants and external funding towards capital expenditure incurred in 2012-13 which had not been received by 31 March 2013.

Note 25. Amounts owed by the Council to creditors

	At 31 March 2013 £000's	At 31 March 2012 £000's
Central government bodies	11,412	10,831
Other local authorities	4,695	5,402
NHS bodies	330	4,551
General creditors	187,982	203,632
Receipts in advance	19,184	32,951
Deferred income	2,635	2,624
Kent and Essex Inshore Fisheries & Conservation Authority	1,268	918
EKO	75	99
	227,581	261,008
Creditors due after 1 year	27,970	3895

Capital creditors amounting to £27m are included in the Accounts at 31 March 2013 (£43m in 2011-12).

Note 26. Cash and Cash Equivalents

Accounting Policy

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They comprise call and business accounts.

In the Cash Flow Statement and Balance Sheet, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

The balance of Cash and Cash Equivalents is made up of the following elements:

	At 31 March 2013 £000's	At 31 March 2012 £000's
Bank current accounts	1,198	13,411
Call accounts (same day access funds)	213,860	126,010
Total Cash and Cash Equivalents	215,058	139,421

Notes 27 and 28 - Cash Flow - Non Cash Adjustments and Operating Activities

Note 27. Cash Flow - Non Cash Adjustments

	2012-13	2011-12
	£'000	£'000
Adjustment to net surplus or deficit on the provision of services for non cash movements		
Movement in pension liability	-4,486	31,550
Carrying amount of non-current assets sold	-124,436	-123,171
Amortisation of fixed assets	-863	-498
Depreciation of fixed assets	-108,230	-103,380
Impairment & downward valuations	-51,578	-61,258
Increase/(decrease) debtors	766	-24,673
(Increase)/decrease creditors	-5,805	6,263
Increase/(decrease) stock	-538	312
Movement on investment properties	-909	4,118
REFCUS	-88,760	-99,114
Other non-cash items charged to the net surplus/deficit on the Provision of Services	8,721	4,587
	-376,118	-365,264
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property plant and equipment, investment property and intangible assets	25,968	25,443
Capital grants applied	143,399	198,841
	169,367	224,284
	-206,751	-140,980

Note 28. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2012-13	2011-12
	£'000	£'000
Interest received	-6,495	-4,546
Interest paid	78,828	77,254
Employee Costs	890,940	979,135
Income from Council Tax	-579,639	-575,917
Government Grants	-1,415,206	-1,448,767

Notes 29 and 30 - Cash Flow - Investing and Financing Activities

Note 29. Cash Flow Statement - Investing Activities

	2012-13	2011-12
	£'000	£'000
Purchase of property, plant and equipment, investment property and intangible assets	196,221	291,280
Purchase of short-term and long-term investments	1,382,770	3,347,481
Other payments for investing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	-25,968	-25,443
Proceeds from short-term and long-term investments	-1,467,160	-3,355,654
Other receipts from investing activities	-161,512	-244,459
Net cash flows	-75,649	13,205

Note 30. Cash Flow Statement - Financing Activities

	2012-13	2011-12
	£'000	£'000
Cash receipts of short- and long-term borrowing	0	-50,000
Other receipts from financing activities		
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	22,097	21,184
Repayments of short- and long-term borrowing	77,021	57,024
Other payments for financing activities	1,600	15,473
Net cash flows from financing activities	100,718	43,681

Note 31. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

	Year ended 31 March 2013					
	Education, Learning & Skills	**Families & Social Care**	**Enterprise & Environ-ment**	**Customer & Commun-ities**	**Business Strategy & Support**	**Total**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other income	-89,277	-113,484	-30,055	-55,079	-56,291	-344,186
Government Grants	-752,727	-25,003	-2,045	-1,133	-99,367	-880,275
Total Income	-842,004	-138,487	-32,100	-56,212	-155,658	-1,224,461
Employee expenses	588,025	153,549	22,465	57,113	72,135	893,287
Other operating expenses	279,489	459,195	161,502	70,976	225,143	1,196,305
Support Service recharges	17,100	11,287	1,830	5,474	4,662	40,353
Total operating expenses	884,614	624,031	185,797	133,563	301,940	2,129,945
Net Cost of Services	42,610	485,544	153,697	77,351	146,282	**905,484**

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	905,484
Add services not included in main analysis	
Add amounts not reported to management	228,997
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-143,786
Net Cost of Services in Comprehensive Income & Expenditure Statement	**990,695**

Note 31 - Amounts Reported for Resource Allocation Decisions

Reconciliation to Subjective Analysis	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	Year ended 31 March 2013				
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Fees, charges & other service income	-344,186		-2,025	15,791	-150,633
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-880,275		1,296	90,713	
Total Income	**-1,224,461**	**0**	**-729**	**106,504**	**-150,633**
Employee expenses	893,287		-16,064		
Other service expenses	1,196,305		85,118	-250,290	150,633
Support Service recharges	40,353				
Depreciation, amortisation and impairment			160,672		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,129,945**	**0**	**229,726**	**-250,290**	**150,633**
Surplus or deficit on the provision of services	**905,484**	**0**	**228,997**	**-143,786**	**0**

Reconciliation to Subjective Analysis	Net Cost of Services	Corporate Amounts	Total
	£000's	**£000's**	**£000's**
Fees, charges & other service income	-481,053		**-481,053**
Surplus or deficit on associates and joint			**0**
ventures			**0**
Interest and Investment Income		4,760	**4,760**
Income from council tax		-579,639	**-579,639**
Government grants and contributions	-788,266	-487,230	**-1,275,496**
Total Income	**-1,269,319**	**-1,062,109**	**-2,331,428**
Employee expenses	877,223		**877,223**
Other service expenses	1,181,766		**1,181,766**
Support Service recharges	40,353		**40,353**
Depreciation, amortisation and impairment	160,672		**160,672**
Interest payments		78,262	**78,262**
Precepts & Levies		729	**729**
Gain or Loss on Disposal of Fixed Assets		98,468	**98,468**
Total operating expenses	**2,260,014**	**177,459**	**2,437,473**
Surplus or deficit on the provision of services	**990,695**	**-884,650**	**106,045**

Note 31 - Amounts Reported for Resource Allocation Decisions

	Year ended 31 March 2012					
	Education, Learning & Skills	Families & Social Care	Enterprise & Environ-ment	Customer & Commun-ities	Business Strategy & Support	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Fees, charges & other income	-92,761	-120,212	-34,645	-43,090	-57,726	-348,434
Government Grants	-835,371	-83,534	1,999	-15,876	-14,311	-947,093
Total Income	-928,132	-203,746	-32,646	-58,966	-72,037	-1,295,527
Employee expenses	656,032	157,704	20,953	63,002	75,090	972,781
Other operating expenses	289,006	461,822	151,928	79,602	208,781	1,191,139
Support Service recharges	15,113	13,267	1,661	6,092	5,262	41,395
Total operating expenses	960,151	632,793	174,542	148,696	289,133	2,205,315
Net Cost of Services	32,019	429,047	141,896	89,730	217,096	**909,788**

Reconciliation of Net Cost of Services in Comprehensive Income & Expenditure Statement

	£000's
Cost of Services in service analysis	909,788
Add services not included in main analysis	
Add amounts not reported to management	244,626
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	-280,959
Net Cost of Services in Comprehensive Income & Expenditure Statement	**873,455**

	Year ended 31 March 2012				
Reconciliation to Subjective Analysis	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges
	£000's	£000's	£000's	£000's	£000's
Fees, charges & other service income	-348,434		-980	20,614	-146,269
Surplus or deficit on associates and joint ventures					
Interest and Investment Income					
Income from council tax					
Government grants and contributions	-947,093		28,485		
Total Income	**-1,295,527**	**0**	**27,505**	**20,614**	**-146,269**

Note 31 - Amounts Reported for Resource Allocation Decisions

Employee expenses	972,781		-39,612		
Other service expenses	1,191,139		91,546	-301,573	146,269
Support Service recharges	41,395				
Depreciation, amortisation and impairment			165,136		
Interest payments					
Precepts & Levies					
Gain or Loss on Disposal of Fixed Assets					
Total operating expenses	**2,205,315**	**0**	**217,070**	**-301,573**	**146,269**
Surplus or deficit on the provision of services	**909,788**	**0**	**244,575**	**-280,959**	**0**

Reconciliation to Subjective Analysis	**Net Cost of Services**	**Corporate Amounts**	**Total**
	£000's	**£000's**	**£000's**
Fees, charges & other service income	-475,069		**-475,069**
Surplus or deficit on associates and joint			**0**
ventures			**0**
Interest and Investment Income		-13,781	**-13,781**
Income from council tax		-575,917	**-575,917**
Government grants and contributions	-918,608	-447,528	**-1,366,136**
Total Income	**-1,393,677**	**-1,037,226**	**-2,430,903**
Employee expenses	933,169		**933,169**
Other service expenses	1,127,432		**1,127,432**
Support Service recharges	41,395		**41,395**
Depreciation, amortisation and impairment	165,136		**165,136**
Interest payments		77,292	**77,292**
Precepts & Levies		735	**735**
Gain or Loss on Disposal of Fixed Assets		97,728	**97,728**
Total operating expenses	**2,267,132**	**175,755**	**2,442,887**
Surplus or deficit on the provision of services	**873,455**	**-861,471**	**11,984**

Note 32. Trading Operations

The results of the various trading operations for 2012-13 are shown below prior to transfers to and from reserves.

Business unit/activity	Turnover £'000	Expenditure £'000	Surplus/ Deficit(-) 2012-13 £'000	Surplus/ Deficit(-) 2011-12 £'000
Kent County Supplies and Furniture Provision of educational and office supplies (from warehouse stock and by direct delivery) and furniture assembly	50,632	48,343	2,289	3,084
Facilities & Technical Services Provision of a wide range of Facilities & Staff Care Management, and Maintenance of buildings and equipment including IT	7,213	6,701	512	572
Brokerage Services Procurement and distribution of Services, including Laser energy buying group, community equipment service, and the specification and control of transport for ELS, E&E & FSC	254,694	252,213	2,481	3,288
County Print Graphic design and general printing	2,051	2,081	-30	17
Transport Services Provision of lease cars, minibuses, ambulances and lorries, plus vehicle maintenance and repairs. Provider of bus services, including school transport	16,269	16,142	127	1,055
Landscape Services Grounds maintenance including constructing and safety Inspection Services for electrical and fire fighting equipment	6,764	6,558	206	412
Oakwood House Conference centre	2,158	2,158	0	-3
Total surplus	339,781	334,196	5,585	8,425

Note 33 - Audit Costs and Note 34 - Dedicated Schools Grant

Note 33. Audit Costs

In 2012-13 the following fees were paid relating to external audit and inspection :

	2012-13	2011-12
	£'000	£'000
Fees payable to the Audit Commission / Grant Thornton for external audit services carried out by the appointed auditor	208	319
Fees payable to the Audit Commission / Grant Thornton in respect of statutory inspection		
Fees payable to the Audit Commission / Grant Thornton for the certification of grant claims and returns	6	11
Fees payable in respect of other services provided by the appointed auditor	6	32
	220	362

Note : A rebate of £18,400 was received from the Audit Commission in 2012-13 in respect of the 2011-12 Audit fees and this is not included in the figures above.

Note 34. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-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 2012-13 are as follows:

	Central Expenditure	Individual Schools Budget	Total
	£'000	£'000	£'000
Final DSG for 2012-13 before Academy recoupment			975,887
Academy figure recouped for 2012-13			251,475
Total DSG after Academy recoupment for 2012-13			724,412
Brought forward from 2011-12			26,508
Carry Forward to 2013-14 agreed in advance			0
Agreed initial budget distribution in 2012-13	109,599	641,321	750,920
In year adjustments	-7,217	7,217	0
Final budgeted distribution in 2012-13	102,382	648,538	750,920
Less actual central expenditure	85,894		
Less Actual ISB deployed to schools		648,538	
Plus Local Council contribution for 2012-13	0	0	0
Carry Forward to 2013-14	16,488	0	16,488 *

Notes *
The total carry forward to 2013-14 of £16,488k represents a carry forward of £10,274k on the centrally retained DSG budget and £6,214k on the schools' unallocated budget. The schools unallocated reserve now stands at over £9m, and its use is determined by the Schools' Funding Forum. It should be noted that the Schools' Forum have now committed the majority of the unallocated reserve and it is estimated that over half will be spent in 2013-14.

Note 35. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 31 on reporting for resources allocation decisions.

Other Public Bodies (subject to common control by central government)

The Council has pooled budget arrangements for the provision of a range of services including drug and alcohol related services, registered nursing care contribution in care homes and integrated care centres providing nursing, respite and recuperative care to Older People.

The Council's Director of Public Health is a joint appointment with East Kent & Coastal and West Kent PCTs. During 2012-13 KCC paid one third of the cost of this post.

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 Consolidated Income and Expenditure Statement, Note 36 on pages 87 to 92 of these Accounts.

As administrator of the Kent Pension Fund, KCC has direct control of the Fund. Transactions between KCC Pension Fund and the Council in respect of income for pensions admin, investment monitoring and other services amounted to £2.673m and cash held by the Pension fund on behalf of KCC is £0.168m.

Payments to other local authorities and health bodies, excluding precepts, totalled £66.8m.

Receipts from other local authorities and health bodies totalled £19.8m.

Entities Controlled or Significantly Influenced by the Council:

Details of Kent County Council's subsidiary companies are provided in Note 40.

Payments made to Kent Top Temps Ltd (KTT) amounted to £31m. The loan remains at £0.2m. KCC received £0.011m of interest. KTT made £2.5m of purchases from KCC.

Payments made to Kent County Facilities Ltd (KCF) amounted to £0.73m. KCF made purchases from KCC amounting to £0.040m.

Kent County Supplies Ltd (KCS) repaid the loan of £0.15m during 2012-13.

A loan of £0.429m was made to East Kent Opportunities LLP in 2010-11, and this, with existing loans and recharges of internal services provided, leaves a balance of £0.071m in 2012-13.

Kent County Council also has an interest in the following companies:

Active companies with less than 50% control	Payments made in 12-13
Association of Tourist Attractions in Kent	-
Groundwork Kent and Medway	£74,497
Aylesham and district Community Workshop Trust	£6,436
The Individual Learning Co Ltd	-
The North Kent Architecture Centre Ltd	£1,200
Kent Tourism Alliance Ltd became Visit Kent Ltd from 21.3.08	£585,468
Locate in Kent Ltd (as amended on 5/5/2000)	£782,000
Trading Stds South East Ltd	£58,043
Business Support Kent Community Interest	£215,149
East Kent Spatial Development Company	-
Goetec Ltd	£60,872
Active companies with greater than 50% control	
Kent County Trading (KCT)	-
Produced in Kent (PINK) Ltd	£111,114
Kent Cultural Trading Limited	£1,261
Commercial Services Kent Ltd	-
Dormant companies	
Kentish Fare Ltd	-
Invicta Services Ltd	-
Dissolved companies	
Kent Training Centres Ltd	-
Invicta Innovations Ltd	-
Kent Access Ltd	-

Note 36. Pension Costs

Note 36a - Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by the Department for Education. The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purpose of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2012-13 Kent County Council paid £40.8m (£42.6m in 2011-12), 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 2012-13 these amounted to £4.5m (£4.3m in 2011-12), representing 1.6% (1.3% in 2011-12) of pensionable pay.

Note 36b. Defined Benefit Pension Scheme

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 through the Movement in Reserves Statement.

Note 36 - Pensions Costs

Under the requirements of IAS19, 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	
	2012-13	**2011-12**
Comprehensive Income and Expenditure Statement	£000's	£000's
Cost of Services:		
• Current service cost	-61,912	-50,015
• Past service costs and curtailments	8,567	16,553
Financing and Investment Income and Expenditure		
• Interest cost	-106,569	-108,811
• Expected return on assets in the scheme	86,019	100,749
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	-73,895	-41,524
• Actuarial gains and losses	-23,203	-358,817
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	-97,098	-400,341
Movement in Reserves statement		
• Reversal of net charges made for retirements benefits in accordance with IAS19	73,895	41,524
Actual amount charged against the General Fund Balance for pensions in the year:		
• Employers' contributions payable to scheme	-69,409	-73,074

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 2012-13 Kent County Council paid an employer's contribution of £69.4m (£73.1m in 2011-12) into the Pension Fund, representing 24% (23% in 2011-12) of pensionable pay. The employer's contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, and for 2012-13 was based on the review carried out as at 31 March 2010. 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. There is £130k capital value of discretionary increases in pension payments (i.e. discretionary added years) agreed by the Council in 2012-13 (£0k in 2011-12). The capital value of payments agreed in earlier years is £121m (£116m in 2011-12).

Note 36 - Pensions Costs

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2012-13	**2011-12**
	£000's	**£000's**
1 April	1,498,893	1,471,303
Expected rate of return	86,019	100,749
Actuarial gains and (losses)	129,161	-64,518
Employer contributions	74,080	77,592
Contributions by scheme participants	19,691	21,175
Benefits paid inc unfunded benefits	-95,726	-95,492
Receipt /payment of bulk transfer values	-6,101	-11,916
31 March	1,706,017	1,498,893

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 £215,180k (2011-12 : £36,231k)

Reconciliation of present value of the scheme liabilities:

	Liabilities: Local Government Pension Scheme	
	2012-13	**2011-12**
	£000's	**£000's**
1 April	2,363,075	2,008,308
Current service cost	61,912	50,015
Interest cost	106,569	108,811
Contributions by scheme participants	19,691	21,175
Actuarial (gains) and losses	159,244	298,727
Benefits paid	-95,726	-95,492
Liabilities extinguished on settlements	-19,751	-35,097
Past service costs	5,083	6,628
31 March	2,600,097	2,363,075

Scheme History

	2008-09	**2009-10**	**2010-11**	**2011-12**	**2012-13**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Present value of liabilities:					
• Local Government Pension Scheme	-1,706,200	-2,473,567	-2,008,308	-2,363,075	-2,600,097
Fair value of assets in the Local Government Pension Scheme	966,300	1,344,338	1,471,303	1,498,893	1,706,017
Surplus/(deficit) in the scheme:					
• Local Government Pension Scheme	-739,900	-1,129,229	-537,005	-864,182	-894,080

Note 36 - Pensions Costs

Net Pension assets as at	31 Mar 2013	31 Mar 2012	31 Mar 2011
	£000's	£000's	£000's
Present value of funded obligation	2,537,711	2,302,631	1,950,959
Fair value of scheme assets (bid value)	1,706,017	1,498,893	1,471,303
Net Liability	**831,694**	**803,738**	**479,656**
Present value of unfunded obligation	62,386	60,444	57,349
Net Liability in Balance Sheet	**894,080**	**864,182**	**537,005**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £894m has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative movement of £29.9m

The increase in pension deficit during the year has arisen principally due to the technical increase in the valuation of the liabilities. International Accounting standard IAS19 requires the liabilities to be valued using assumptions based on gilt and corporate bonds yields. The yield in excess of expected inflation (which in turn is based on gilt yields) from corporate bonds decreased from 1.3% to 1.0% during the year in part due to the impact of quantitative easing and other technical factors on bond and gilt markets. Had these markets remained at their 2012 levels then the pensions deficit would have been £159,244,000 less at £734,836,000. The assets of the Kent County Council Fund are invested for the longer term with only a small percentage invested in corporate bonds. The return earned by the Fund during the year was of the order of 5.8%.

IAS19 does not have any impact on the actual level of employer contributions paid to the Kent County Council Fund. Employers' levels of contribution are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2014 is £65,168k, this is in line with the revised IAS19 Standard

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 Barnett Waddingham.

Note 36 - Pensions Costs

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
		Restated
	2012-13	2011-12
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.30%	7.40%
Gilts	3.30%	4.40%
Bonds	4.60%	5.50%
Property	4.30%	5.40%
Cash	3.00%	3.00%
Target Return Portfolio	4.70%	-
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	20.1 years	20.0 years
Women	24.1 years	24.0 years
Longevity at 65 for future pensioners:		
Men	22.1 years	22.0 years
Women	26.0 years	25.9 years
Rate of inflation	3.4%	3.3%
Rate of increase in Consumer Price Index	2.6%	2.5%
Rate of increase in salaries	3.9%	3.8%
Rate of increase in pensions	2.6%	2.5%
Rate for discounting scheme liabilities	4.4%	4.6%
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 2013	March 2012
	%	%
Equity Investments	71%	74%
Gilts	0%	1%
Bonds	13%	10%
Property	8%	9%
Cash	4%	4%
Target Return Portfolio	4%	2%
	100%	100%

History of experience gains and losses

The actuarial gains identified as movements on the Pension Reserve in 2012-13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2013:

	2008-09 as restated	2009-10	2010-11	2011-12	2012-13
	%	%	%	%	%
Differences between the expected and actual return on assets	-32.2	20.7	0.9	-4.3	7.6
Experience gains and losses on liabilities	-0.1	-0.4	-5.3	0.1	0.1

Analysis of Amount Recognised in the Comprehensive Income and Expenditure Statement

	2012-13	2011-12	2010-11
	£000's	£000's	£000's
Actuarial Gains/Losses	-27,874	-363,388	380,650
Increase / Decrease in irrecoverable surplus from membership fall and other factors	4,671	4,571	2,574
Actuarial gain / (loss) recognised	-23,203	-358,817	383,224

Highways ex Direct Works DLO Pension Fund

The Balance Sheet includes £2m to reflect the unfunded liability of the Highways (ex Direct Works DLO) Pensions Fund as calculated by the actuary in March 2013 in accordance with IAS19.

Note 37. Financial Instruments

Accounting Policy

Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. 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 Comprehensive Income and Expenditure Statement 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

Financial assets

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement (debited to the appropriate service) 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 to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

Financial Liabilities

The Council's financial liabilities held during the year are measured at amortised cost and comprised of:
- long-term loans from the Public Works Loan Board and commercial lenders
- overdraft with NatWest Bank
- finance leases on land and buildings
- Private Finance Initiative contracts detailed in Note 17

Financial Assets

The financial assets held by the Council during the year are held under the following two classifications.

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising of:
- cash
- bank accounts
- fixed term deposits with the DMO
- fixed term deposits with banks and building societies
- impaired investments in Icelandic banks
- trade receivables for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising of:
- certificates of deposit issued by banks and building societies
- treasury bills and gilts issued by the UK Government

Note 37 - 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	
	31 Mar 2013	**31 Mar 2012**	**31 Mar 2013**	**31 Mar 2012**
	£000's	**£000's**	**£000's**	**£000's**
Borrowing	1,023,575	1,025,805	2,018	77,534
EKO			309	309
	1,023,575	**1,025,805**	**2,327**	**77,843**
Other Creditors	27,970	3,895	194,349	214,602
PFI/Finance Lease Liabilities	217,333	221,795	4,462	4,852
Government Grants			11,412	10,831
	245,303	**225,690**	**210,223**	**230,285**
Total Financial Liabilities	**1,268,878**	**1,251,495**	**212,550**	**308,128**
Investments		11,320	64,961	134,681
Cash equivalents at amortised cost			213,860	126,010
Cash and Bank Accounts			1,198	13,411
	0	**11,320**	**280,019**	**274,102**
Debtors	59,759	61,172	137,429	144,960
Total Financial Assets	**59,759**	**72,492**	**417,448**	**419,062**

The debt and investments recorded on the balance sheet comprise the following:

	Long Term		Current	
	31 Mar 2013	**31 Mar 2012**	**31 Mar 2013**	**31 Mar 2012**
	£000's	**£000's**	**£000's**	**£000's**
Loans at amortised cost				
Nominal Amount	1,010,273	1,012,288	2,325	77,330
Accrued Interest	13,302	13,358	3	513
Unamortised Discounts / (Premiums) on Modified Loans		159		
Total Borrowings as per Balance Sheet	**1,023,575**	**1,025,805**	**2,328**	**77,843**
Investments:				
Principal Amount		10,000	71,140	145,330
Fire and Pension Fund cash			-5,679	-7,352
Accrued Interest		1,320	4,605	2,035
Impairment charge for Iceland			-5,105	-5,332
Total Investments	**0**	**11,320**	**64,961**	**134,681**
Cash equivalents at amortised cost			213,860	126,010
Cash and Bank Accounts			1,198	13,411
Total Investments and Cash as per Balance Sheet	**0**	**11,320**	**280,019**	**274,102**

Note 37 - Financial Instruments

Financial Instruments Gains / Losses

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

	2012-13		
	Financial Liabilities	**Financial Assets**	
	Liabilities measured at amortised cost	Loans and receivables	Total
	£000's	**£000's**	**£000's**
Interest expense - Debt	-56,581		-56,581
Losses on derecognition	-950		-950
Impairment losses		227	227
	-57,531	**227**	**-57,304**
Interest expense - Finance leases	-20,575		-20,575
Interest expense - PFI	-1,525		-1,525
Interest payable and similar charges	**-79,631**	**227**	**-79,404**
Interest income		6,500	6,500
Gains on derecognition		159	159
Interest and investment income	**0**	**6,659**	**6,659**
Gains on revaluation			
Losses on revaluation			
Amounts recycled to I&E Account after impairment			
Surplus arising on revaluation of financial assets	**0**	**0**	**0**
Net gain/(loss) for the year	**-79,631**	**6,886**	**-72,745**

Financial Instruments - Fair Values

The Council's financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under short term borrowings or short term investments. This also includes accrued interest for borrowings, investments, cash and cash equivalents.

Their fair values have been estimated by calculating the new present value of the remaining contractual cash flows at 31 March 2013, using the following assumptions:

- PWLB loans have been discounted at the published interest rates for new certainty rate loans arranged on 31 March
- other long-term loans and investments have been discounted at the market rates for similar instruments on 31 March
- no early repayments or impairment is recognized
- the fair value of short-term instruments, including trade payables and receivables is assumed to approximate to the carrying amount

Note 37 - Financial Instruments and Note 38 - Nature and Extent of Risks Arising from Financial Instruments

The fair values calculated are as follows:

	31 March 2013		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000's	£000's	£000's	£000's
PWLB debt	579,347	773,970	657,042	846,139
Non-PWLB debt	446,246	630,288	446,297	441,800
EKO temporary loan	310	310	309	309
Total Borrowings	1,025,903	1,404,568	1,103,648	1,288,248
Creditors	233,731	233,731	229,329	229,329
Total Financial Liabilities	**1,259,634**	**1,638,299**	**1,332,977**	**1,517,577**
Long Term Investments			11,320	11,654
Short Term Investments	64,961	64,961	134,681	134,681
Cash equivalents at amortised cost	213,860	213,860	126,010	126,010
Cash	1,198	1,198	13,411	13,411
Total Investments and Cash	280,019	280,019	285,422	285,756
Debtors	197,188	197,188	206,132	206,132
Total Financial Assets	**477,207**	**477,207**	**491,554**	**491,888**

The movement in short term investments between 2012-13 and 2011-12 is due to maturing deposits being invested in call accounts which is included in cash equivalents at amortised cost.

The fair value of financial liabilities is higher 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 at the Balance Sheet date.

Note 38. Nature and Extent of Risks Arising from Financial Instruments

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Revised Prudential Code of Capital Finance for Local Authorities (both updated in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG's Investment Guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose it to a variety of financial risks:

- 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;
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in interest rates.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

Credit Risk: Investments

The Council manages credit risk by ensuring that investments are placed with the organisations of high quality as set out in the Treasury Management Strategy.

The criteria for the selection of counterparties are:

- A strong likelihood of Government intervention in the event of liquidity issues based on the systemic importance to the UK economy.
- Publicised credit ratings for institutions (excluding the DMO).
- Other financial information e.g. Credit Default Swaps, share price, corporate developments, news, articles, market sentiment, momentum.
- Country exposure e.g. Sovereign support mechanisms, GDP, net debt as a percentage of GDP.
- Exposure to other parts of the same banking group.
- Reputational issues.
- Minimum long-term credit rating of A-.

Limits are placed on the amount of money that can be invested with a single counterparty: DMO £450m, UK banks and building societies £50m with a group limit of £75m, Australian and Canadian banks £25m with a country limit of £50m. The maximum duration for any new deposit is twelve months.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £400m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

Credit Rating	**31 Mar 2013**	**31 Mar 2012**
	£000's	**£000's**
AAA	0	0
AA+	0	0
AA	0	39,600
AA-	0	0
A+	0	0
A	244,400	221,000
A-	0	0
Total Investments	244,400	260,600

All deposits outstanding as at 31 March 2013 met the Council's credit rating criteria on 31 March 2013.

The above analysis excludes the estimated carrying value after impairment of the Council's Icelandic Bank investment of £9m.

Credit Risk: Receivables

The Council does not generally allow credit for its debtors, as such £1.056m of the £142,385m balance is one month past its due date for payment. The past due amount can be analysed by age as follows:

	31 Mar 2013	**31 Mar 2012**
	£000's	**£000's**
One to three months	374	195
Three to six months	204	1,115
Six months to one year	385	336
More than one year	93	257
	1,056	**1,903**

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 2013 was £28m.

Note 38 - Nature and Extent of Risks Arising from Financial Instruments

Liquidity risk

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and at higher rates from banks. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities

The maturity analysis of the principal sums borrowed is as follows:

Time to maturity Years	31 Mar 2013 £000's	31 Mar 2012 £000's
Not over 1	2,015	77,021
Over 1 but not over 2	26,193	2,015
Over 2 but not over 5	95,002	89,194
Over 5 but not over 10	92,003	108,003
Over 10 but not over 20	106,005	97,006
Over 20 but not over 30	148,470	173,470
Over 30 but not over 40	130,800	130,800
Over 40	216,100	241,800
Uncertain date *	195,700	170,000
Total	**1,012,288**	**1,089,309**

* The Council has £195.7m of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely repay these loans. The maturity date is therefore uncertain.

Market risk

Interest Rate Risk: The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 30% on external debt that can be subject to variable interest rates. At 31 March 2013, 80.7% of the debt portfolio was held in fixed rate instruments, and 19.3% in variable rate instruments.

Investments are also subject to movements in interest rates. The Council's policy of holding variable rate and short term fixed rate investments increases the exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

If all interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000's
Increase in interest payable on variable rate borrowings	1,957
Increase in interest receivable on variable rate investments	(1,894)
Increase in government grant receivable for financing costs	
Impact on Provision of Services (surplus)	**63**
Decrease in fair value of fixed rate investment assets	
Impact on Other Comprehensive Income and Expenditure	**0**
Decrease in fair value of fixed rate borrowings / liabilities*	**76,136**

*No impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Investments are also subject to movements in interest rates. The Council's policy of holding variable rate and short term fixed rate investments increases the exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

Price Risk: the Council does not invest in equity shares and therefore is not subject to any price risk (i.e. the risk that the council will suffer loss as a result of adverse movements in the price of financial instruments).

Foreign Exchange Risk: the Council currently has approximately £3m in Icelandic Krona held in escrow pending the relaxation of capital controls by the Icelandic Government, and is therefore exposed to the risk of adverse movements in the exchange rate.

Note 39. Contingent Liabilities

Accounting Policy

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Employment

There are 13 claims relating to discrimination and breach of contract in employment. Of these, ten are limited to unfair dismissal and two are against schools and one is a discrimination case. In addition to the 13 claims there are a potential number which have not yet officially pleaded. Although the governing bodies of schools are the legal employer of teaching staff, by operation of the Education (Modification of Enactments Relating to Employment) (England) Order 2003, where an award of damages is made by an Employment Tribunal, in most cases Kent County Council will be liable to pay the award. Employment tribunals can in discrimination cases award unlimited damages to a successful claimant. Based on available information on these cases, the total amount in damages being sought by the claimants exceeds £365k and an additional amount of approximately £150k for those not officially pleaded. However, on a number of these claims the prospects of success are assessed to be good. It is extremely rare for employment tribunals to award all of the damages that are claimed.

Education

There are no education cases.

Childcare

All care proceedings are subject to the Public Law Outline (PLO) regime and all are subject to a court fee structure. KCC Legal services are currently advising on 287 live cases where proceedings have actually been issued. The costs to KCC of taking these proceedings are in excess of £10k each.

Litigation

There are 14 such cases of which legal costs for 11 of these are expected to exceed £165k in total. Of the three remaining cases one is in relation to KCC tenancies of which the financial risk should the claimant be successful would be approximately £370k. The second is in relation to disputes over rental agreements, the claims are significant and range from £25k to £350k. The third relates to procurement disputes with one particular claim potential being several hundred thousand pounds.

Note 39 - Contingent Liabilities

Asylum, Ordinary Residence & Judicial review cases

There is one judicial review case of age assessment for which the cost is likely to exceed £10k. There are four further cases, three of which, if successful, would exceed £10k each. The fourth case claim has been withdrawn but KCC have agreed to pay legal costs which will exceed £10k. There are five Ordinary Residence claims which if successful may exceed £10k.

Nearest Relative

There is one case seeking to remove a parent from role as nearest relative. The outcome is unpredictable but if successful will be in excess of £10k.

Court of Protection

There are matters of Court of Protection which has jurisdiction over cases involving the interests of vulnerable people under the Mental Health Act 2005. There is a wide discretion for the Court in such litigation and individual costs may exceed £10k. These cases are not likely to attract cost orders that place KCC potentially liable or exposed to risk.

Note 40. Subsidiary Undertakings

Accounting Policy

Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries and jointly controlled entities. However, as the majority of the transactions (largely with Kent Top Temps) are between the Council and the subsidiary we are not preparing group accounts.

Subsidiary Undertakings

Kent Top Temps Ltd (KTT) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on the 4 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, nursery staff, drivers and industrial, catering, interpreters and translation, and professionals. The permanent appointment desk operates via the name of Connect2Staff. It also operates buses for contract and private hire trading as Kent Top Travel. The travel operation is in the process of winding down and is expected to cease trading by November 2013.

In 2012-13 KTT had a turnover of £38.3m with a net profit of £22k before tax. In 2012-13 its net assets were £1.5m. The loan remains at £0.2m set against the net indebtedness of the authority to KTT at the year end of £5.5m.

Kent County Facilities Ltd (KCF) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. KCF commenced trading in September 2007 as InsideOut, undertaking building repair and maintenance contracts within both the public and private sectors. In January 2009 this business was re-branded, and now trades as Facilities Management. Additional business activities which KCF undertakes include waste management and transport servicing and repairs. In 2012-13 KCF had a turnover of £3.8m, a net profit of £158k before tax and its net assets were £1.7m. The indebtedness of the authority to KCF is £301k. KCF will be trading from the 1 April 2013 under the name of Commercial Service Trading Ltd.

Note 40 - Subsidiary Undertakings

Kent County Supplies Ltd (KCS) is a subsidiary of Kent County Trading Ltd, wholly owned by Kent County Council. It commenced trading on 7th April 2010 and transferred its trading operations to fellow subsidiary Kent Top Temps Ltd on 1st April 2012. The loan of £0.150m provided by Commercial Services was repaid during 2012-13. KCS was dormant during the year ended 31st March 2013 but has started operating again from 1st April 2013 under the name Commercial Services Kent Ltd.

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 arrangement 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 arrangement. 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 1 of the Local Government Act 2000. In 2012-13, in the draft, unaudited EKOLLP accounts, the net assets of the joint arrangement are £10m with an operating loss before members remuneration and profit shares available for discretionary division among members of £0.20m.

Collectively the subsidiaries do not have a material impact on the Kent County Council's accounts and therefore it is not necessary to produce group accounts in 2012-13. This situation is reviewed on an annual basis.

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

Note 41. Trust Funds

Funds which KCC acts as custodian trustee

2012-13	Income	Expenditure	Assets	Liabilities
	£'000	£'000	£'000	£'000
Hildenborough War Memorial	0	0	1	0
James Wilford (Kent) Charity	0	0	0	0
Hugh and Montague Leney Travelling Award Trust	8	6	205	0
Countywide. Awards for educational travel.				
Jim Petrie Memorial Fund	0	0	3	0
Pupils/students in secondary schools and colleges. To encourage appreciation of country life.				
Joan Kemsley Memorial Fund	0	1	1	0
Countywide. Reflection of opera experience/attending opera at Glyndebourne				
J A Tapping Trust	0	0	6	0
Provision of comforts for needy children in the Deal area.				
Grace Say Charity	1	0	36	0
Provision of comforts for needy people in the Dartford area.				
Total	**9**	**7**	**252**	**0**

Note 41 - Trust Funds

2011-12	Income £'000	Expenditure £'000	Assets £'000	Liabilities £'000
Hildenborough War Memorial	0	0	1	0
James Wilford (Kent) Charity	0	0	0	0
Hugh and Montague Leney Travelling Award Trust Countywide. Awards for educational travel.	8	10	179	0
Jim Petrie Memorial Fund Pupils/students in secondary schools and colleges. To encourage appreciation of country life.	0	1	2	0
Joan Kemsley Memorial Fund Countywide. Reflection of opera experience/attending opera at Glyndebourne	1	0	3	0
J A Tapping Trust Provision of comforts for needy children in the Deal area.	0	0	3	0
Grace Say Charity Provision of comforts for needy people in the Dartford area.	1	0	33	0
Glyndebourne To promote the musical education of school children.	0	1	0	0
Total	**10**	**12**	**221**	**0**

Other Funds

	2011-12 Capital Value to fund £'000	2012-13 Capital Value to fund £'000
Criminal Injuries Compensation Awards	852	278
Maidstone Grammar Schools Endowment Fund	220	249
W H Petty Testimonial Fund	6	8
	1078	535

Note 42 Other Notes

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 Council. 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 105 - 127.

The Euro

The impact of the possible introduction of the Euro in the United Kingdom is being monitored and no costs were incurred in 2012-13.

Pension Fund Accounts

The following financial statements are taken from the Fund's Annual Report and Accounts 2013 at the Kent Pension Fund website at www.kentpensionfund.co.uk. Alternatively a copy can be obtained from the Treasury and Investments team, email: investmentsteam@kent.gov.uk, telephone: 01622 694625.

Description of the Fund

General

In accordance with Government legislation, 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, the district councils in Kent and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Pension Fund is a contributory defined benefit pension scheme and is contracted out of the State Second Pension.

The Fund is governed by the Superannuation Act 1972. The Fund is administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009

The Fund is overseen by the Kent County Council Superannuation Fund Committee which is a committee of Kent County Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join or remain in the scheme or to make personal arrangements outside the scheme. Employing Bodies 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 include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following a specific business transfer to the private sector.

There are 370 employing bodies participating in the Fund and the profile of members is as detailed below:

	Contributors		Pensioners		Deferred pensioners	
	31Mar 2013	31 Mar 2012	31Mar 2013	31 Mar 2012	31Mar 2013	31 Mar 2012
Kent County Council	21,384	21,752	17,993	17,213	20,887	19,768
Other Employers	21,170	19,671	15,738	15,045	16,948	15,662
Total	42,554	41,423	33,731	32,258	37,835	35,430

Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31 March 2013. Employee contributions are matched by employers' contributions which are determined by the Fund's actuary based on triennial actuarial funding valuations 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 up to a maximum of 20 years. The last such valuation was at 31 March 2010.

The 2010 valuation certified a common contribution rate of 20.8% of pensionable pay to be paid by each employing body participating in the Kent County Council Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Kent Pension Fund website.

Benefits are index linked to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

LGPS 2014

A new Scheme (LGPS 2014) is being introduced with effect from 1st April 2014. It will apply to all service that builds up on and after 1 April 2014 and all pensions in payment or built up before April 2014 will be protected.

The table below shows the main provisions of the proposed new Scheme (LGPS 2014) for membership compared with those of the current scheme (LGPS 2008) .

	LGPS 2014	LGPS 2008
Basis of Pension	Career Average Revalued Earnings (CARE)	Final Salary
Accrual Rate	1/49th	1/60th
Revaluation Rate	Consumer Prices Index (CPI)	Based on Final Salary
Pensionable Pay	Pay including non-contractual overtime and additional hours for part time staff	Pay excluding non-contractual overtime and non-pensionable additional hours
Employee Contribution Rates	See LGPS 2014 Employee Contribution Rate below	See LGPS 2008 Employee Contribution Rate below
Contribution Flexibility	Yes, members can pay 50% contributions for 50% of the pension benefit	No
Normal Pension Age	Equal to the individual member's State Pension Age	65
Lump Sum Trade Off	Trade £1 of pension for £12 lump sum	Trade £1 of pension for £12 lump sum
Death in Service Lump Sum	3 x Pensionable Pay	3 x Pensionable Pay
Death in Service Survivor Benefits	1/160th accrual based on Tier 1 ill health pension enhancement	1/160th accrual based on Tier 1 ill health pension enhancement
Ill Health Provision	Tier 1 - Immediate payment with service enhanced to Normal Pension Age Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age Tier 3 - Temporary payment of pension for up to 3 years	Tier 1 - Immediate payment with service enhanced to Normal Pension Age (65) Tier 2 - Immediate payment with 25% service enhancement to Normal Pension Age (65) Tier 3 - Temporary payment of pension for up to 3 years

	LGPS 2014	LGPS 2008
Indexation of Pension in Payment	CPI	CPI (RPI for pre-2011 increases)
Vesting Period	2 years	3 months

Future Scheme Cost Management

If the costs of the LGPS change beyond certain limits still to be agreed, there will be negotiations between unions, employers and government about how to meet those cost changes.

Pension Protection on Transfer

LGPS members who are compulsorily transferred will be able to retain membership of the Scheme.

Future Contribution Rates

LGPS 2014 Rates payable 2014-15			**LGPS 2008** Rates payable 2013-14		
From	**To**	**Gross Rate %**	**From**	**To**	**Gross Rate %**
Up to £13,500		5.5	Up to £13,700		5.5
£13,501	£21,000	5.8	£13,701	£16,100	5.8
£21,001	£34,000	6.5	£16,101	£20,800	5.9
£34,001	£43,000	6.8	£20,801	£34,700	6.5
£43,001	£60,000	8.5	£34,701	£46,500	6.8
£60,001	£85,000	9.9	£46,501	£87,100	7.2
£85,001	£100,000	10.5	More than £87,100		7.5
£100,001	£150,000	11.4			
More than £150,000		12.5			
Average		**6.5**	**Average**		**6.5**

Pension Fund Accounts

Fund Account for the year ended 31 March

	Notes	2012-13 £000's	2011-12 £000's
Dealings with members, employers and others directly involved in the Fund			
Contributions	5	213,713	214,037
Transfers In from other pension funds	6	8,840	11,561
		222,553	225,598
Benefits	7	-192,463	-187,903
Payments to and on account of leavers	8	-7,591	-8,090
Administrative and other expenses	9	-2,922	-2,954
		-202,976	-198,947
Net additions from dealings with Members		**19,577**	**26,651**
Returns on Investments			
Investment Income	10	72,971	76,835
Taxes on Income		-2,686	-2,897
Profits and losses on disposal of investments and changes in the market value of investments	13a	424,192	19,038
Investment Management Expenses	12	-11,944	-11,481
Net Return on Investments		**482,533**	**81,495**
Net increase in the Net Assets Available for benefits during the year		**502,110**	**108,146**
Opening Net Assets of the Scheme at 1 April		3,310,588	3,202,442
Closing Net Assets of the Scheme at 31 March		**3,812,698**	**3,310,588**

Net Assets Statement as at 31 March

	Notes	31 Mar 2013 £000's	31 Mar 2012 £000's
Investment Assets		3,680,068	3,176,020
Cash Deposits		108,532	98,850
Total Investments		**3,788,600**	**3,274,870**
Investment Liabilities	13	-1,610	-173
Net Investments		**3,786,990**	**3,274,697**
Current Assets	21	38,402	45,890
Current Liabilities	22	-12,694	-9,999
Net Assets available to fund benefits at the period end		**3,812,698**	**3,310,588**

The financial statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in note 20 to the accounts.

Notes to the Pension Fund Account

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2012-13 financial year and its position at 31 March 2013.

The accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 which is based upon International Financial Reporting Standards, as amended for the UK public sector. The accounts are prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard 19 basis is disclosed at note 20 of these accounts.

2. Summary of Significant Accounting Policies

a) Contribution income

Normal contributions, both from the members and from the employers, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.
Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

Dividends, interest, and stock lending income on securities and rental income on property have been accounted for on an accruals basis and where appropriate from the date quoted as ex-dividend (XD). Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year. A large number of the Fund's investments are held in income accumulating funds that do not distribute income. The accumulated income on such investments is reflected in the unit market price at the end of the year and is included in the realised and unrealised gains and losses during the year.

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the year end. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund has been accepted by the HM Revenue and Customs 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 interest income and gains on selling transactions. Income arising from overseas investments is subject to deduction of withholding tax unless exemption is permitted by and obtained from the country of origin. Investment income is shown net of non-recoverable tax, and any recoverable tax at the end of the year is included in accrued investment income.
By virtue of Kent County Council being the administering authority, VAT input tax is recoverable on all Fund activities including investment and property expenses.

f) Investment management and administrative expenses

All expenses are accounted for on an accruals basis. Costs relating to Kent County Council staff involved in the administration of the Fund are incurred by the Kent County Council and recharged to the Fund at the end of the year. Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

g) Financial assets

Financial assets other than debtors are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. Any purchase or sale of securities is recognised upon trade and any unsettled transactions at the year-end are recorded as other investment assets or liabilities. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund

The values of investments as shown in the Net Assets Statement have been determined as follows:

- Quoted investments are stated at market value based on the closing bid price quoted on the relevant stock exchange on 31 March 2013.

- Fixed interest securities are recorded at net market value based on their current yields

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager

- Investments in private equity funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued based on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for cash movements to the year end.

- Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund

- 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 last valuation had been undertaken by Colliers International, as at 31 December 2012. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms. The results of the valuation have then been indexed in line with the Investment Property Databank Monthly Index movement to 31 March 2013.

- Debtors / receivables are measured at amortised cost using the effective interest rate method, as required by IAS 39.

h) Derivatives

The Fund uses derivative instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Currently the Fund only holds forward currency contracts. The future value of the forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

i) Foreign 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 rate ruling at the transaction date. Foreign income has been translated into sterling at the rate ruling at the date of the transaction.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Cash held as demand deposits and all cash equivalents whether managed by Kent County Council or other fund managers are included in investments. All other cash is included in Current Assets.

k) Financial Liabilities

The Fund recognises financial liabilities other than creditors at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund. Creditors are measured at amortised cost using the effective interest rate method, as required by IAS 39.

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20)

3. Judgements and Assumptions made in applying accounting policies

Item	Uncertainties	Effect if actual results differ from assumption
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £0.63m. A 0.25% increase in assumed earning inflation would increase the value of liabilities by approx. £0.17m, and a one year increase in assumed life expectancy would increase the liability by approx. £0.23m.
Private Equity	Valuation of unquoted private equity including infrastructure investments is highly subjective and inherently based on forward looking estimates and judgements involving many factors. They are valued by the investment managers using guidelines set out in the British Venture Capital Association.	The total private equity including infrastructure investments on the financial statements are £59m. There is a risk that this investment may be under-or-over stated in the accounts.

4. Events after the Balance Sheet date

There have been no events since 31 March 2013, up to the date when these accounts were authorised, that require any adjustment to these accounts.

5. Contributions Receivable

		2012-13	2011-12
		£000's	£000's
Employers		168,282	167,318
Members		45,431	46,719
		213,713	**214,037**
Analysis by Employer	Kent County Council	85,295	91,056
	Scheduled Bodies	115,984	111,258
	Admitted Bodies	12,434	11,723
		213,713	**214,037**

6. Transfers In

	2012-13	2011-12
	£000's	£000's
Individual	8,840	9,680
Group	0	1,881
	8,840	11,561

7. Benefits Payable

		2012-13	2011-12
		£000's	£000's
Pensions		150,713	136,263
Retirement Commutation and lump sum benefits		38,553	47,728
Death benefits		3,197	3,912
		192,463	**187,903**
Analysis by Employer	Kent County Council	89,473	87,550
	Scheduled Bodies	94,606	92,176
	Admitted Bodies	8,384	8,177
		192,463	**187,903**

8. Payments to and on account of leavers

	2012-13	2011-12
	£000's	£000's
Individual transfers	7,590	8,031
Refunds of contributions	1	59
	7,591	**8,090**

9. Administrative and other Expenses

	2012-13	2011-12
	£000's	£000's
Internal Administration	2,522	2,455
Actuarial Fees	169	240
Audit Fee	28	45
Legal and Other Professional Fees	150	157
Other miscellaneous expenses	53	57
	2,922	2,954

10. Summary of Income from Investments

	Notes	2012-13 £000's	2012-13 %	2011-12 £000's	2011-12 %
Fixed Interest Securities		2,135	3.0	685	0.9
Equities		35,411	48.5	37,161	48.4
Pooled Investments		15,343	21.0	15,350	20.0
Private Equity / Infrastructure		3,153	4.3	3,014	3.9
Property	11	12,366	17.0	11,345	14.8
Pooled Property Investments		3,934	5.4	3,959	5.1
Total Income From Investments		**72,342**	**99.2**	**71,514**	**93.1**
Cash Deposits		374	0.5	5,103	6.6
Sub-Underwriting Commission/other					
Stock Lending		255	0.3	218	0.3
Total		**72,971**	**100.0**	**76,835**	**100.0**

11. Property Income and Expenditure

	2012-13 £000's	2012-13 £000's	2011-12 £000's	2011-12 £000's
Rental Income from Investment Properties		12,366		11,345
Management Fees		-743		-686
Direct Operating Expenses on investment properties generating rental income				
- Miscellaneous property expenses	-854		-819	
- Insurance net of recovered	6		-126	
- Disbursements paid	-641		-630	
- Other expenses recovered	849		711	
		-640		-864
Net operating income from Property		**10,983**		**9,795**

12. Investment Management Expenses

	2012-13 £000's	2011-12 £000's
Investment Managers	11,041	10,354
Custody fees	128	114
Actuarial (Investment Consultancy)	79	97
Performance Measurement	56	52
Direct Operating Expenses on investment properties generating rental income (note 11)	640	864
	11,944	**11,481**

The management fees disclosed above include all investment management fees directly incurred by the fund including those charged on pooled fund investments.

13. Analysis of Change in Market Value of Investments

	Market Value as at 31 March 13 £000's	Market Value as at 31 March 12 £000's
Investment Assets		
Fixed Interest Securities	280,104	34,990
Equities	1,264,169	1,057,570
Pooled Investments	1,764,778	1,720,756
Private Equity/Infrastructure	58,952	45,360
Property	222,027	222,576
Pooled Property Investments	78,000	88,074
Derivatives contracts - Forward Currency contracts	2,666	0
Cash Deposits	108,532	98,850
Investment Income due	8,505	6,654
Amounts receivable for sales	867	40
Total Investment Assets	**3,788,600**	**3,274,870**
Investment Liabilities		
Amounts payable for purchases	-1,610	-173
Total Investment Liabilities	**-1,610**	**-173**
Net Investment Assets	**3,786,990**	**3,274,697**

13a. Analysis of Change in Market Value of Investments and derivatives

	Market Value as at 31 March 12 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 13 £000's
Fixed Interest Securities	34,990	360,360	-127,074	11,828	280,104
Equities	1,057,570	293,407	-256,143	169,335	1,264,169
Pooled Investments	1,720,756	188,937	-389,109	244,194	1,764,778
Private Equity/Infrastructure	45,360	13,602	0	-10	58,952
Property	222,576	18,108	-24,250	5,593	222,027
Pooled Property Investments	88,074	0	-7,360	-2,714	78,000
	3,169,326	874,414	-803,936	428,226	3,668,030
Derivative contracts					
- Forward Currency contracts	0	752,599	-745,899	-4,034	2,666
	3,169,326	**1,627,013**	**-1,549,835**	**424,192**	**3,670,696**
Other Investment balances					
- Cash Deposits	98,850				108,532
- Debtors - Outstanding Sales	40				867
- Creditors - Outstanding Purchases	-173				-1,610
- Investment Income due	6,654				8,505
Net Investment Assets	**3,274,697**			**424,192**	**3,786,990**

	Market Value as at 31 March 12 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Market Value as at 31 March 13 £000's
Fixed Interest Securities	34,731	26,172	-31,985	6,072	34,990
Equities	1,062,652	220,942	-188,753	-37,271	1,057,570
Pooled Investments	1,680,490	89,478	-101,295	52,083	1,720,756
Private Equity/Infrastructure	26,296	20,536	0	-1,472	45,360
Property	190,955	31,268	0	353	222,576
Pooled Property Investments	89,615	108	-922	-727	88,074
	3,084,739	**388,504**	**-322,955**	**19,038**	**3,169,326**
Derivative contracts					
- Forward Currency contracts	0				0
	3,084,739	**388,504**	**-322,955**	**19,038**	**3,169,326**
Other Investment balances					
- Cash Deposits	72,972				98,850
- Debtors - Outstanding Sales	656				40
- Creditors - Outstanding Purchases	0				-173
- Investment Income due	4,433				6,654
Net Investment Assets	**3,162,800**			**19,038**	**3,274,697**

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 £965,610 (2011-12 £880,221). 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.

14. Analysis of Investments (excluding derivative contracts)

	Market Value as at 31 March 13 £'000's	Market Value as at 31 March 12 £'000's
FIXED INTEREST SECURITIES		
UK		
Public Sector Quoted	0	34,990
Corporate Quoted	20,205	0
OVERSEAS		
Public Sector Quoted	50,524	0
Corporate Quoted	209,375	0
	280,104	**34,990**
EQUITIES		
UK		
Quoted	656,558	555,603
OVERSEAS		
Quoted	607,611	501,967
	1,264,169	**1,057,570**
POOLED FUNDS - Additional Analysis		
UK		
Fixed Income Unit Trusts	215,772	343,487
Unit Trusts	689,334	612,887
OVERSEAS		
Fixed Income Unit Trusts	0	76,790
Unit Trusts	859,672	687,592
	1,764,778	**1,720,756**
PROPERTY, PRIVATE EQUITY AND INFRASTRUCTURE		
Property		
UK	222,027	222,576
Property Unit Trusts		
UK	63,001	72,111
Overseas	14,999	15,963
Private Equity Funds		
UK	3,912	3,574
Overseas	14,465	5,334
Infrastructure		
UK	8,209	8,441
Overseas	32,366	28,011
	358,979	**356,010**
TOTAL	**3,668,030**	**3,169,326**

14a. Analysis of Investments - Derivative Contracts

Objectives and policy for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the investment manager.

Open forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant portion of the Fund's fixed income portfolio managed by Goldman Sachs Asset Management is invested in overseas securities. To reduce the volatility associated with fluctuating currency rates, the investment manager fully hedges the overseas, excluding emerging markets, exposure of the portfolio. This is approximately 75% of the portfolio managed by Goldman Sachs.

Settlement	Currency bought £000's	Local value £000's	Currency sold	Local value £000's	Asset value £000's	Liability value £000's
Up to one month	GBP	1,664	USD	-2,521	3	
Up to one month	GBP	6,692	USD	-10,030	87	
Up to one month	GBP	2,333	USD	-3,481	41	
Up to one month	GBP	731	EUR	-836	23	
Up to one month	GBP	1,854	USD	-2,815		0
Up to one month	GBP	89	USD	-135	0	
One to six months	GBP	1,047	USD	-1,574	10	
One to six months	GBP	100,427	USD	-150,948	1,016	
One to six months	GBP	100,460	USD	-150,948	1,049	
One to six months	GBP	16,957	EUR	-19,562	413	
One to six months	GBP	1,646	CHF	-2,332	24	
					2,666	
Net forward currency contracts at 31 March 2013						**2,666**

Prior year comparative

	Asset value	Liability value
Open forward currency contracts at 31 March 2012	0	0
Net forward currency contracts at 31 March 2012		**0**

14b. Property Holdings

	Year ending 31 March 13 £000's	Year ending 31 March 12 £000's
Opening Balance	222,576	190,955
Additions	18,108	31,268
Disposals	-24,250	0
Net increase in market value	5,593	353
Closing Balance	**222,027**	**222,576**

15. Investments analysed by Fund Manager

	Market Value as at 31 March 2013		Market Value as at 31 Mar 2012	
	£000's	%	£000's	%
Baillie Gifford	699,449	18.5	582,654	17.8
DTZ	300,027	7.9	310,651	9.5
GMO	220,778	5.8	192,010	5.9
Goldman Sachs	296,954	7.9	270,503	8.3
HarbourVest	14,465	0.4	5,334	0.2
Henderson	8,209	0.2	8,441	0.3
Impax	26,251	0.7	23,517	0.7
Invesco	479,239	12.7	398,911	12.2
Partners Group	32,366	0.8	28,011	0.8
Pyrford	153,450	4.1	80,354	2.4
Schroders	1,005,812	26.6	874,007	26.8
State Street Global Advisors	474,052	12.6	441,211	13.5
YFM	3,912	0.1	3,574	0.1
Kent County Council Investment Team	64,262	1.7	49,000	1.5
	3,779,226	100	3,268,177	100

All the external fund managers above are registered in the United Kingdom. The Fund Manager totals exclude investment debtor and creditors.

15a. Single investments 5% or more by value of their asset class

	31 March 2013	
Asset Class / Investments	£000's	% (of asset class)
POOLED FUNDS		
UK Fixed Income Unit Trusts		
Schroder Institutional Stlg Broadmarket 'X' Acc	109,729	6
SISF Strategic Bond GBP Hedged	106,043	6
UK Unit Trusts		
Invesco Perpetual Income Fund	479,239	27
MPF UK Equity Index Sub-Fund	183,531	10
Overseas Unit Trusts		
BMO Investments (Ireland PLC) Global Total Return-Pyrford	153,450	9
GMO Developed World Equity Investment (U.S.$)	216,701	12
MPF International Equity Index Sub-Fund	290,521	16
Schroder GAV Unit Trust	168,670	10
PROPERTY UNIT TRUSTS		
L & G Leisure	7,713	10
Henderson Shopping Centre	4,222	5
Falcon	6,760	9
Hercules	9,309	12
Quercus	5,204	7
Airport Fund	9,085	12
Lothbury	7,880	10
Welput	10,754	14
Aurora	14,999	19

Asset Class / Investments		31 March 2013 £000's	% (of asset class)
PRIVATE EQUITY AND INFRASTRUCTURE FUNDS			
Private Equity			
UK			
Chandos Fund (YFM)		3,912	7
Overseas			
HIPEP VI- Cayman		7,393	13
HarbourVest Partners IX		7,072	12
Infrastructure			
UK			
Henderson Secondary PFI Fund I		5,432	10
Overseas			
Partners Group Global Infrastructure 2009		28,192	48
Partners Group Direct Infrastructure 2011		4,174	7
PROPERTY			
Location	**Type of Property**		
3-5 Charing Cross Road, London	Office	20,476	9
102 - 114 Wardour Street, London	Mixed Use	13,117	6
Drury House, London	Office	22,189	10
49/59 Battersea Park Road, London	Industrial	16,227	7
Hertsmere Industrial Estate, Borehamwood	Industrial	13,731	6
Kings Park, Manchester	Industrial	11,229	5

Properties purchased during the year		Date of purchase	Purchase Cost £000's
Vine Hill and Wren House	Office	03/10/2012	16,715
Millbrook Estate Plot 1904	Industrial	01/09/12	439
Additions / Cost adjustments to existing properties			953

Properties sold during the year

	Date of sale	Sale Value £000's
14-15 Conduit Street, London	15/08/12	24,250

16. Stock Lending

The Custodians undertake a conservative programme of stock lending to approved UK counterparties against non cash collateral mainly comprising of Sovereigns and Treasury Bonds.

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's**	**Collateral Value £000's**	**Collateral type**
Equities	59,031	62,710	Sovereigns and Treasury Bonds
Corporate Bonds - Euro	770	797	Sovereigns and Treasury Bonds
	59,801	63,507	

17. Financial Instruments

17a. Classification of Financial Instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

	31 March 13			31 March 12		
	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's	Designated as fair value through profit and loss £000's	Loans and receivables £000's	Financial liabilities at amortised cost £000's
Financial Assets						
Fixed Interest Securities	280,104			34,990		
Equities	1,264,169			1,057,570		
Pooled Investments	1,764,778			1,720,756		
Property Pooled Investments	78,000			88,074		
Private Equity/Infrastructure	58,952			45,360		
Derivative contracts	2,666			0		
Cash		109,214			104,307	
Other Investment Balances	9,372			6,694		
Debtors/ Receivables		37,720			40,433	
	3,458,041	**146,934**	**0**	**2,953,444**	**144,740**	**0**
Financial Liabilities						
Other Investment balances	-1,610			-173		
Creditors			-12,694			-9,999
	-1,610	**0**	**-12,694**	**-173**	**0**	**-9,999**
Total	**3,456,431**	**146,934**	**-12,694**	**2,953,271**	**144,740**	**-9,999**

17b. Net Gains and Losses on Financial Instruments

	31 March 13	31 March 12
Financial assets	£000's	£000's
Fair value through profit and loss	418,599	18,684
Loans and receivables	0	0
Financial assets measured at amortised cost	0	0
Financial Liabilities		
Fair value through profit and loss	0	0
Loans and receivables	0	0
Financial liabilities measured at amortised cost	0	0
Total	**418,599**	**18,684**

17c. Fair Value of Financial Instruments and Liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 13		31 March 12	
	Carrying value	Fair Value	Carrying value	Fair Value
	£000's	£000's	£000's	£000's
Financial assets				
Fair value through profit and loss	3,458,041	2,458,041	2,953,444	2,953,444
Loans and receivables	146,934	146,934	144,740	144,740
Total financial assets	**3,604,975**	**2,604,975**	**3,098,184**	**3,098,184**
Financial liabilities				
Fair value through profit and loss	-1,610	-1,610	-173	-173
Financial liabilities at amortised cost	-12,694	-12,694	-9,999	-9,999
Total financial liabilities	**-14,304**	**-14,304**	**-10,172**	**-10,172**

17d. Valuation of Financial Instruments carried at Fair Value

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Investments include quoted equities, quoted index linked securities and unit trusts.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available or where valuation techniques are used to determine fair value. These techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. They include private equity and infrastructure investments the values of which are based on valuations provided by the General Partners to the funds in which the Pension Fund has invested.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2013	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial assets at fair value through profit and loss	3,321,089	78,000	58,952	3,458,041
Financial liabilities at fair value through profit and loss	-1,610			-1,610
Net financial assets at fair value through profit and loss	**3,319,479**	**78,000**	**58,952**	**3,456,431**

Values at 31 March 2012	Quoted market price Level 1 £000's	Using observable inputs Level 2 £000's	With significant unobservable inputs Level 3 £000's	Total £000's
Financial assets at fair value through profit and loss	2,820,010	88,074	45,360	2,953,444
Financial liabilities at fair value through profit and loss	-173			-173
Net financial assets at fair value through profit and loss	**2,819,837**	**88,074**	**45,360**	**2,953,271**

18. Nature and extent of Risks Arising From Financial Instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (ie promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Superannuation Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risks, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund has a strategic allocation to Equities at 64% and this is typical of local authority funds. It does mean that returns are highly correlated with equity markets.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risks. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy.

Other price risk - sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2013-14 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Equities	11.43%
Overseas Equities	12.25%
Global Pooled inc UK	12.41%
Bonds	3.29%
Alternatives	5.13%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 13 £000's	Percentage change %	Value in increase £000's	Value on decrease £000's
Cash and cash equivalents	108,532	0.00	108,532	108,532
Investment portfolio assets:				
UK Equities	656,558	11.43	731,603	581,513
Overseas Equities	607,611	12.25	682,044	533,179
Global Pooled inc UK	1,842,778	12.41	2,071,466	1,614,089
Bonds	280,104	3.26	289,235	270,972
Private Equity	18,377	5.13	19,320	17,434
Infrastructure Funds	40,575	5.13	42,657	38,494
Net derivative assets	2,666	0.00	2,666	2,666
Investment income due	8,505	0.00	8,505	8,505
Amounts receivable for sales	867	0.00	867	867
Amounts payable for purchases	-1,610	0.00	-1,610	-1,610
Total assets available to pay benefits	**3,564,963**		**3,955,285**	**3,174,641**

Asset Type	Value as at 31 March 12 £000's	Percentage change %	Value on increase £000's	Value on decrease £000's
Cash and cash equivalents	98,850	0.00	98,850	98,850
Investment portfolio assets:				
UK Equities	555,603	11.43	619,108	492,097
Overseas Equities	501,967	12.25	563,458	440,476
Global Pooled inc UK	1,808,830	12.41	2,033,306	1,584,354
Bonds	34,990	3.26	36,131	33,849
Private Equity	8,908	5.13	9,365	8,451
Infrastructure Funds	36,452	5.13	38,322	34,582
Net derivative assets	0	0.00	0	0
Investment income due	6,654	0.00	6,654	6,654
Amounts receivable for sales	40	0.00	40	40
Amounts payable for purchases	-173	0.00	-173	-173
Total assets available to pay benefits	**3,052,121**		**3,405,061**	**2,699,180**

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 are set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	31 March 13 £000	31 March 12 £000
Cash and cash equivalents	108,532	98,850
Fixed Interest Securities		
- Directly held securities	280,104	34,990
- Pooled Funds	215,772	420,277
Total	**604,408**	**554,117**

Interest rate risk - sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment advisor has advised that long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset Type	Carrying amount as at 31 March 13	Change in year in the net assets available to pay benefits	
	£000's	£000's	£000's
Cash and cash equivalents	108,532	1,085	-1,085
Fixed Interest Securities			
- Directly held securities	280,104	2,801	-2,801
- Pooled Funds	215,772	2,158	-2,158
Total change in assets available	**604,408**	**6,044**	**-6,044**

Asset Type	Carrying amount as at 31 March 12	Change in year in the net assets available to pay benefits	
		+100bps	-100bps
	£000's	£000's	£000's
Cash and cash equivalents	98,850	989	-989
Fixed Interest Securities			
- Directly held securities	34,990	350	-350
- Pooled Funds	420,277	4,203	-4,203
Total change in assets available	**554,117**	**5,542**	**-5,542**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Through their investment managers, the Fund holds both monetary and non-monetary assets denominated in currencies other than £UK, the functional currency of the Fund. Most of these assets are not hedged for currency risk . The Fund is exposed to currency risk on these financial instruments. However, a large part (£209m) of the assets managed by Goldman Sachs Asset Management held in non £UK currencies is hedged for currency risk through forward currency contracts. The Fund's currency rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the range of exposure to current fluctuations. The following table summarises the Fund's currency exposure excluding the hedged investments as at 31 March 2013 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 13	Asset value as at 31 March 12
	£000's	£000's
Overseas Equities	607,611	501,967
Overseas Pooled Funds	874,671	780,345
Overseas Bonds	50,524	0
Overseas Private Equity and Infrastructure	46,831	33,345
Non GBP Cash	47,374	38,873
Total overseas assets	**1,627,011**	**1,354,530**

Currency risk - sensitivity analysis

Following analysis of historical data and expected currency movement during the financial year, in consultation with the fund's investment advisors, the Council has determined that the following movements in the values of financial assets denominated in foreign currency are reasonably possible for the 2013-14 reporting period. This analysis assumes that all other variables, in particular interest rates, remain constant. A relevant strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 13	Percentage change	Change to net assets available to pay benefits	
	£000's	%	£000's	£000's
Overseas Equities	607,611	5.08	638,478	576,745
Overseas Pooled Funds	874,671	5.08	919,104	830,238
Overseas Bonds	50,524	5.08	53,091	47,958
Overseas Private Equity and Infrastructure	46,831	5.08	49,210	44,452
Non GBP Cash	47,374	5.08	49,781	44,968
Total change in assets available	**1,627,011**		**1,709,664**	**1,544,361**

Currency exposure - asset type	Asset value as at 31 March 12	Percentage change	Change to net assets available to pay benefits	
	£000's	%	£000's	£000's
Overseas Equities	501,967	5.08	527,467	476,467
Overseas Pooled Funds	780,345	5.08	819,987	740,703
Overseas Bonds	0	5.08	0	0
Overseas Private Equity and Infrastructure	33,345	5.08	35,039	31,651
Non GBP Cash	38,873	5.08	40,848	36,898
Total change in assets available	**1,354,530**		**1,423,341**	**1,285,719**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund’s financial assets and liabilities.

In essence the Fund’s entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment of a receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum amount may be placed with any one financial institution. The Fund's cash was held with the following institutions:

Summary	**Rating**	Balance as at 31 March 13 £000's	Balance as at 31 March 12 £000's
Funds Managed under Internal Treasury arrangements			
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAA**	0	17,088
JP Morgan Dollar Liquidity Fund	**AAA**	0	20,230
Blackrock Sterling Government Liquidity Fund	**AAA**	63	3,100
Blackrock USD Fund	**AAA**	16,205	0
Goldman Sachs Sterling Government Fund	**AAA**	0	2,952
SWIP Global GBP Liquidity Fund	**AAA**	6,337	0
Insight Sterling Liquidity Fund	**AAA**	19,911	0
		42,516	**43,370**
Bank Deposit Accounts			
NatWest SIBA	**A**	19,835	3,809
		62,351	**47,179**
Bank Current Accounts			
Natwest Current Account	**A**	50	84
Natwest Current Account - Euro	**A**	29	2,767
Barclays - DTZ client monies account	**A**	603	2,606
		682	**5,457**
Total		**63,033**	**52,636**

	Rating	Balance as at 31 March 13 £000's	Balance as at 31 March 12 £000's
Funds Managed by fund Managers			
Money Market Funds			
JP Morgan Sterling Liquidity Fund	**AAA**	9,060	47,674
Goldman Sachs Sterling Liquidity Reserve	**AAA**	14,010	0
Bank Current Accounts			
JP Morgan Chase - Current Account	**A+**	23,111	3,996
Total		46,181	51,670

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.
The Council has immediate access to its Pension Fund cash holdings.
Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund investment strategy.
All financial liabilities at 31 March 2013 are due within one year.

Refinancing risk

The key risk is that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19. Funding Arrangements

In line with Local Government Pension Scheme (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2010. The next such valuation will take place as at 31 March 2013.

The key elements of the funding policy are:

- Ensure the long-term solvency of the Fund
- Ensure that sufficient funds are available to meet all the benefits as they fall due for payment
- Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the taxpayer

- Maximise the returns from investments within reasonable risk parameters.

The aim is to achieve 100% solvency over a period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a time period.

The market value of the Fund's assets at the valuation date was £2,780m and the liabilities were £3,623m. The assets therefore, represent 77% (2007 - 73%) of the Fund's accrued liabilities, allowing for future pay increases. The main actuarial assumptions were as follows:

Valuation of Assets:	assets have been valued at a 6 month smoothed market rate
Rate of return on investments	6.6% p.a.
Rate of general pay increases	5.0% p.a.
Rate of increases to pensions in payment (in excess of guaranteed minimum pension):	3.0% p.a.

The actuarial valuation has been undertaken on the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer and the attained age valuation method for employers who were closed to new entrants. These methods assess the costs of benefits accruing to existing members during the year following valuation and the remaining working lifetime respectively, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any differences in the value of accrued liabilities and the market value of assets.

20. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the fund's actuary undertakes a valuation of the fund's liabilities on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

The actuarial present value of promised retirement benefits as at 31 March 2013 was £6,044.4m (31 March 2012: £5,490.5m). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. Based on the latest valuation, the fair value of net assets of the Fund represents 63% of the actuarial valuation of the promised retirement benefits. Future liabilities will be funded from future contributions from employers.

The liability above is calculated on an IAS 19 basis and therefore differs from the results of the 2010 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects a market rate.

Assumptions used:	**% p.a.**
Salary	4.8%
Pensions increase rate	2.6%
Discount rate	4.5%

21. Current Assets

	2013		2012	
	£000's	£000's	£000's	£000's
Debtors				
- Contributions due - Employees	3,611		3,530	
- Contributions due - Employers	26,976		26,141	
- Sundry debtors	1,944	32,531	738	30,409
Amounts due from Kent County Council		5,189		10,024
Cash		682		5,457
		38,402		45,890
Analysis of debtors				
Central Government Bodies		0		262
Other Local Authorities		27,491		27,268
Other Entities and individuals		5,040		2,879
		32,531		30,409

22. Current Liabilities

	2013	2012
	£000's	£000's
Benefits Payable	-3,688	-4,291
Sundry Creditors	-6,957	-5,708
Prepaid income	-1,881	0
Owing to Kent County Council	-168	0
Total	-12,694	-9,999
Analysis of creditors		
Central Government Bodies	-40	0
Other Local Authorities	-3,301	-2,976
Public Corporations	0	-11
Other Entities and individuals	-9,353	-7,012
Total	-12,694	-9,999

23. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. In accordance with regulation 4(2)(b) of the LGPS (Management and Investment of Funds) Regulations 2009, these AVC contributions are not included within the Pension Fund Accounts. 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 Kent County Council members and paid over to the AVC providers was: £580,538 (£811,233 in 2011-12). These amounts are included within the disclosure note figures below.

	Prudential		Standard Life		Equitable Life	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£000's	£000's	£000's	£000's	£000's	£000's
Value at 1 April	5,028	4,390	2,035	2,058	975	1,136
Value at 31 March	5,335	5,028	2,045	2,035	936	975
Contributions paid	1,209	1,309	132	188	4	7

24. Related Party Transactions

The Kent Pension Fund is administered by Kent County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

	2012-13	2011-12
	£000's	£000's
The Council is the largest single employer of members of the Pension Fund and during the year contributed:	66,300	70,943
A list of all contributing employers and amount of contributions received is included in the Fund's annual report available on the pension fund website at:www.kentpensionfund.co.uk		
Transactions between the Kent County Council Pension Fund and Kent County Council, in respect of Pensions administration costs, investment monitoring, legal and other services.	2,673	2,612
Year end balance due (to)/from Kent County Council arising out of transactions between Kent County Council and the Pension Fund	-168	3,313

Key management personnel

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Kent County Council under the information for officers' remuneration and members' allowances.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2013 totalled £97m (31 March 2012: £109m)

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the life of each fund.

26. Contingent Assets

34 admitted body employers in the Kent Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

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Report by exception

Delay in certification of completion of the audit

Darren Wells
Director
Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

24 July 2013

Annual Governance Statement

Scope of Responsibility

Kent County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. 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 economy, efficiency and effectiveness.

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

Kent County Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework guidance: Delivering Good Governance in Local Government. This statement explains how the Council has complied with the Code and 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 of internal control.

Governance is about how the Council ensures it is doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values by which the Council is directed and controlled. The Council has responsibility for conducting an annual review of the effectiveness of its governance framework, including the system of internal control.

All Corporate Directors have a range of duties to ensure that their directorates are run efficiently, effectively and with proper risk management and governance arrangements, including a sound system of control. As part of the AGS process, each Corporate Director is specifically required to confirm that this system is in place. They are also required to review internal controls to ensure they are adequate and effective taking into account the following:

(i) Outcomes from risk assessment and evaluation
(ii) Self-assessment of key service areas within the directorate
(iii) Internal audit reports and results of follow ups regarding implementation of recommendations
(iv) Outcomes from reviews of services by other bodies, including Inspectorates, external auditors, etc.
(v) Linkage between business planning and the management of risk

Separate submissions are provided by the Statutory Officers (the Head of Paid Service, the Monitoring Officer and the Section 151 Officer) in respect of issues that they are aware of for the Council as a whole. Corporate Directors put in place an action plan for each issue detailed in their AGS submission as soon as that issue is identified. Their action plans must include:

(i) an accountable officer
(ii) a specific timescale
(iii) the detailed action to be taken
(iv) updates on progress throughout the year

In addition, the Director of Governance & Law completed the annual review of the Code of Corporate Governance during 2012-13. The Code of Corporate Governance is included at Appendix 10 of the Constitution.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the Council 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 system of internal control is a significant part of that 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 achievement of Kent County Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place within Kent County Council for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts.

The Governance Framework

The Council sets out clearly its vision and purpose, with clarity on outcomes for residents. It engages with stakeholders to ensure robust public accountability through the following actions:

(i) Members and Officers working for a common purpose with clearly defined functions and roles

(ii) Promoting values for the whole organisation and demonstrating good governance through behaviours

(iii) Taking informed transparent decisions subject to scrutiny and managing risk

(iv) Developing the capacity and capability of the Members and officers to be effective

The Council's governance environment is consistent with the six core principles of the CIPFA/SOLACE framework. For each principle we have described the Councils relevant governance mechanism and associated sources of assurance:

Principle	Description of Governance Mechanism	Assurances Received
1. Identifying and communicating the Council's vision and purpose	Good governance means focussing on the organisation's purpose and outcomes from residents and service users: · Members, working with officers, have developed a clear vision of their purpose and intended outcomes for citizens and service users. · The Vision for Kent Sustainable Community Strategy sets out the 10 year vision for the county. · Kent Forum (comprising the democratic leaders of all Kent's districts and county councils) works to the shared vision and oversees the delivery boards that are tasked with leading on specific themes within the strategy. · The Corporate Plan – Bold Steps for Kent – sets out the Council's ambitions and priorities, its determination to transform how the council works and engages with the communities it serves and its partners in the public, private and voluntary sectors. · Delivering Bold Steps for Kent is the overarching delivery framework and sets out 16 priorities central to achieving the Council's vision and priorities. · Delivery Boards: Safer Communities Board, Children's Trust Board and Health and Wellbeing Board meet and lead on the development of integrated services around specific themes. · Service plans set out the consultation, communication and marketing activity to be done in order that the service can be better planned to meet the needs of the customer or user in future.	Performance Management Framework – information is published quarterly against corporate priorities and targets and reported to the Cabinet Committees and Cabinet. Externally reported data; Government Single Data list; and CIPFA benchmarking. Strategic and service data published online to enable residents to hold the Council to account. Internal Audit Plan linked to the overall objectives of the Council and the risks to their achievement. Employment appraisals linked to the Council's strategic objectives. Results of consultations e.g. Kent Joint Health and Wellbeing Strategy, various school expansions, Kent Lane Rental Scheme, Making Kent Quicker (broadband) and many others are set out on a dedicated web page

Principle	Description of Governance Mechanism	Assurances Received
2. Members and Officers working for a common purpose with clearly defined functions and roles	Elected members are collectively responsible for the governance of the Council. Decision making and scrutiny of decisions is separated through the executive arrangements introduced by the Local Government Act 2000. · The Constitution includes a statement on the roles of the Executive and clarifies the Scheme of Delegation in place. · The roles and duties of the Statutory Officers are documented within the Constitution. The Head of Paid Service works with Members and Corporate Directors to deliver the council's objectives. · The Chief Finance Officer (s.151 Officer) has responsibility for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts and maintaining an effective system of internal financial control. · The Monitoring Officer is responsible for ensuring agreed procedures are followed and that all applicable statutes and regulations are complied with. · A new governance structure was approved by Council in March 2012. · Formal procedures and rules govern the Council's business: Constitution, Schemes of Delegation, Financial Regulations and Contract Procedure Rules. · The Selection & Member Services Committee monitors and recommends changes to the Constitution to Council. · A pay policy 2012-13 is published in accordance with section 38(1) of the Localism Act and the Personnel Committee reviews pay, policy conditions of service and appointments. · Arrangements exist within services and corporate performance to evaluate value for money. Benchmark information is collated and reported quarterly along with an overall corporate value for money indicator.	The Head of Internal Audit has given adequate assurance for risk management and internal control and substantial assurance for the Governance Framework. Performance reporting through the Policy & Resources Cabinet Committee on a regular basis provides information regarding value for money. Most recent staff survey shows improvements in how staff view the organisation compared with last year. Regular reviews of the Constitution (including the Code of Corporate Governance) by the Monitoring Officer and Selection & Member Services Committee/full Council.
3. Promoting values for the whole organisation and demonstrating good governance through behaviours	Good governance means performing effectively in clearly defined functions and roles. It means promoting appropriate values for the Council and demonstrating the values of good governance by upholding high standards of conduct and behaviour. · The Council takes the lead in establishing and promoting values for the organisation and its staff. These values are to be: open; invite contribution and challenge; and to be accountable. They are intended to shape the culture and define the character of the organisation now and in the future. · The Kent Code of Member Conduct sets out the members' obligations, how Disclosable Pecuniary Interests and Other Significant Interests are managed and the Seven Principles of Public Life. All Members receive training on the Code as part of their induction process, which is monitored by the Standards Committee.	Monitoring Officer reports to the Corporate Management Team and Corporate Board. Standards Committee minutes and decisions. Minutes and decisions of all committees are observed by the Monitoring and/or Head of Democratic Services. Annual Performance Review for staff explicitly links to achievement of objectives.

Principle	Description of Governance Mechanism	Assurances Received
	· Although the Localism Act 2011 allowed for the removal of local standards committees, the Council decided to retain this mechanism to ensure high standards of Member conduct are promoted and maintained. · The Code of Conduct for Employees is published on the Council's intranet and is in the Constitution. Staff are made aware of the Code through the corporate induction process. · The Council has a Whistleblowing Policy and an Anti Fraud and Corruption Policy in place. · The Director of Governance and Law is the Monitoring Officer and is responsible for ensuring that the Council acts in accordance with the Constitution and supports the Standards Committee. · Corporate Directors have primary responsibility for ensuring that decisions are properly made under the terms of the Constitution and the Schemes of Delegation. · The Council developed new equality objectives last year in relation to how and where it plans, procures, commissions and delivers services. · The Council takes a whole organisation approach to addressing issues of equality in relation to providing services and the way it manages and develops its workforce. These two areas are not only interlinked, but also ultimately impact the Council's ability to deliver public sector equality duties.	Equalities Impact Assessments carried out for the 2011-12 and 2012-13 budget proposals were undertaken without legal challenge. Member training and development programme provides focus on, and assurance of, appropriate skills and capability. The numbers of staff grievances and appeals is low given the level of change and the authority has not lost any Employment Tribunal cases.
4. Taking informed transparent decisions subject to scrutiny and managing risk	Good governance means taking informed, transparent decisions and managing risk. · The Council has formally stated the types of decisions that are the responsibility of the Executive, those reserved to full Council and those delegated to committees and officers. · There are processes in place to demonstrate that decision makers followed due process, the decisions were properly documented and taken having regard to all relevant considerations. · Decision making is supported by adequate risk management arrangements, with the Risk Management Strategy and Policy Statement reviewed annually by the Governance & Audit Committee and approved by the Policy & Resources Cabinet Committee. · Key and other significant decisions to be taken are published in the Council's Forthcoming Executive Decision (FED) list which covers a six-month period (two months more than required by statute). · In March 2012, the Council established six Cabinet Committees whose remit includes pre-consideration of decisions to be taken by Cabinet/Cabinet Members. · The Council has a Scrutiny Committee and a Health Overview and Scrutiny Committee with membership drawn from non-executive members.	Delegations set out in the Council's Constitution. Governance & Audit Committee work plan and terms of reference stipulate the way in which responsibility is discharged. Internal Audit review on risk management arrangements 2012-13. Annual review of Anti-Fraud and Corruption strategy. External audit VFM opinion, which considers governance, risk and performance management Internal Audit Annual Report 2012-13. Complaints Annual Report. RIPA – Commissioner Office Surveillance control. Ofsted reports.

Principle	Description of Governance Mechanism	Assurances Received
	· Governance & Audit Committee provides effective, independent assurance of the adequacy of the internal control environment and oversee the financial reporting process. · The Head of Internal Audit supports the Governance & Audit Committee and reviews its effectiveness on an annual basis. · Corporate Risks are considered quarterly by the Policy & Resources Cabinet Committee, Governance & Audit Committee and officer groups. Operational day to day risk management exists at an officer level with Member involvement at key trigger points. · Internal Audit operates in line with the Code of Practice for Internal Audit in Local Government. The Head of Internal Audit reports to the Corporate Director – Finance & Procurement and has direct access to both the Corporate Management Team, the Head of Paid Service, Members and the Chairman of Governance & Audit Committee. · The Constitution makes it clear that managers have responsibility for operating a sound system of internal control. Internal Audit works collaboratively with services to recommend improvements to the control environment. · There are designated Whistleblowing officers in each directorate. · There is an Anti-Fraud and Corruption Strategy in place to prevent and detect fraud. There was an increase in the level of reporting in 2012-13 compared with previous years, indicating increased awareness of the potential for fraud, rather than actual levels of fraud. · The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures and a structure of delegation and accountability. The Medium Term Financial Strategy is updated and agreed by full Council each year and includes a risk assessment of budget options. · The Council has an open data and transparency programme which meets and often exceeds the expectations of central government. · Open data available includes: corporate directors' salaries and expenses; register of gifts and hospitality; Council spending; Member's allowances and expenses; invoices over £500 and Kent area profiles.	Forthcoming Executive Decision (FED) list published on website. Medium Term Financial Strategy and signed Statement of Accounts. Zero tolerance approach to irregularities. All irregularities reported are investigated. Regular reports about complaints to Governance & Audit Committee.
5. Developing the capacity and capability of the Members and officers to be effective	Good governance means developing the capacity and capability of the governing body to be effective. · Member development is delivered under the Member Development Charter (awarded in 2010) and the Member Development Charter Plus (achieved in 2011). · All Members receive training on the Code of Member Conduct.	Attendance at Member development sessions and regular reports to Selection & Member Services Committee.

Principle	Description of Governance Mechanism	Assurances Received
	· Other tailored training is provided to support Members work on specific committees (e.g. Planning Applications, Personnel, etc) as well as generic leadership and personal development programmes. · All officers are subjected to a consistent Total Contribution appraisal and personal development process, which provides a tailored action and development plan that meets the needs of the individual and delivery of corporate and directorate objectives. · The Change to Keep Succeeding transformation programme reinforces the expectation that all staff have an appreciation of the Council's values and expected behaviours. · The Organisation and People Plan includes a training strategy covering the development of professional and generic skills for all employees. · The Kent Manager Standard accredited by Edexcel is mandatory for all staff at KR9 or above.	Individual performance review ratings give assurances that staff are carrying out their work in accordance with Council priorities and objectives. Updates to Governance & Audit Committee regarding the Change to keep Succeeding programme. 39% of eligible staff have started the Kent Manager programme and regular reports are provided to Personnel Committee.
6. Engaging with local people and stakeholders	Good governance means engaging stakeholders and making accountability real. It is important for the Council to consult, involve and listen to its citizens to improve services and plan for the future. The Council is committed to publishing the results of consultations and explain how the results will be used. · Service plans set out what consultation, communication and marketing activity is to be undertaken and the Council has a webpage bringing all public consultations together. · Services engage with their users using various methods, e.g. service user groups, mystery shopping and peer to peer engagement. · The Council has a dedicated Community Engagement Officer (CEO) for each district in Kent. They provide a link between local people, local organisations and decision-makers in Kent. Each CEO works with the local Member to arrange regular local community meetings in each district. · Kent residents have the right to vote and sign a petition to request a referendum for an alternative form of constitution and to submit or sign a petition on any issue of concern. · A Complaints Procedure is in place with regular reports going to the Governance & Audit Committee. · The Kent Compact, bringing together representatives from the public, private and community sectors to encourage closer working is in place and is underpinned by four protocols. · Kent Volunteering Charter is in place to promote and support volunteering across the county.	Results of consultations (e.g. Kent Joint Health and Wellbeing Strategy, various school expansions, Kent Lane Rental Scheme and Making Kent Quicker (broadband)) are set out on a dedicated web page on the Council's website. Regular reports of complaints and compliments are made to Governance & Audit Committee.

Review of Effectiveness

Every year, a return is submitted for each part of each Directorate (as well as by Statutory Officers) reviewing the effectiveness of its governance framework, including the system of internal control. Attached to each return is the appropriate evidence to support the statements in that return. The returns and their supporting evidence are the background information, in light of which the Corporate Director/Statutory Officer completes their Statement of Assurance.

The Returns cover each directorate's progress on implementing the actions/areas of improvement identified in the 2011-12 AGS. They also detail any new issues that have arisen since 1 April 2012, which have a significant impact on risk management or governance, including details of the sources used to identify such issues. Finally, they provide assurance that Corporate Directors have ensured compliance with the Constitution and Financial Regulations and whether any further actions/areas of improvement are required.

It is for each Corporate Director to decide the level of evidence that provides sufficient assurance that actions/improvements identified in the 2011/12 AGS have been implemented. In respect of all outstanding matters there is confirmation that a detailed action plan is in place, and the name of the responsible officer.

Internal Audit has concluded overall, based on the findings of work that it has performed and taking into account the individual strengths and weaknesses identified, that adequate assurance can be given for risk management and the system of internal control and substantial assurance can be given for the governance framework. This has been further endorsed through the performance management framework and external audit assurance.

The assurance level in relation to risk management arrangements reflects substantial improvements to formalising risk management processes, including:

(i) the issue of policies and guidance
(ii) provision of workshops and Member training
(iii) evidence of proper discussion of risks at Divisional, Directorate and Corporate management levels
(iv) improvements to the collection and handling of risk information

There are, however, areas that need further improvement to fully embed formalised risk management within all divisions, including:

(i) improved monitoring of implementation of agreed actions
(ii) identification of owners and action dates for all risks
(iii) more formalised consideration of risks when making decisions

The Council confirms that its financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010), as set out in the Application Note to Delivering Good Governance in Local Government: Framework.

Governance issues identifies in 2011-12 – Progress Update

The table below describes the governance issues identified in the 2011-12 Annual Governance Statement and the progress made against these during 2012-13:

Issue	Proposed Action	Owner	Update on Progress
Maintaining standards of governance and service in the face of budget demands/pressures	Proceed in accordance with existing action plans and keep under review	Corporate Management Team	See Corporate Directors' 2012-13 statements of assurance
Service transformation is incomplete in some areas	Continue with existing action plans and keep under review	Corporate Management Team	Organisational design model adopted to support its structures

Issue	Proposed Action	Owner	Update on Progress
Concerns regarding delivery of children's services and related data quality	Full implementation of the action plans already in place	Corporate Director Families and Social Care	

Significant Governance Issues for 2012-13

The following issues have been identified and assessed as being significant for the purpose of this annual governance statement. Some actions have been have been taken, others are in progress and will continue to be monitored in 2013-14:

Directorate	Issue	Actions
Business Strategy & Support (on behalf of the whole authority)		
	Limited opinion on KCC's risk management.	Concerns addressed by new Risk Management team. Initial feedback has highlighted significant progress reflected by an improved assurance level and an increase in the organisation's risk maturity.
	Risks identified as result of re-structuring, including the risk of fraud in remote services, which may not be sufficiently identified, monitored or rectified.	Issues are being prioritised with appropriate Directorate Management Teams. Furthermore, Internal Audit are continuing with a programme of establishment audits to review financial controls, inspection standards and safety and security of these remote services.
	Governance and running of KCC companies	Ensure robust legal and governance arrangements are in place before, during and after the creation of such companies.
	Strengthen compliance with declaration of outside commitments and personal interests	Declaration of outside commitments and personal interests will form part of the annual appraisal meeting.
	Manually intensive payment processes can lead to input error. Exacerbated by system issues, staff turnover in the originating departments and reduced resource levels.	Planned introduction of eInvoicing and expansion of Oracle iProcurement reducing manual intervention on core payments programme. The Foster Payments System is also due to be replaced. Improved management arrangements and staff knowledge as the new Finance & Procurement structure beds down in its second year of operation. Continued emphasis on staff performance management.
	Implementation and governance processes to support the new capital strategy.	Processes developed and implemented to support new capital strategy, including revised business case template with weighted criteria to support Bold Steps and ensure fiscal indicator is not exceeded over the five year capital programme. The new process is designed to streamline the decision making activity.
	Council Tax Collection Rates – the risk/impact of people not paying (given the changes to the Council Tax Benefit System).	This is being monitored by the Section 151 Officer through the Head of Financial Strategy.

Directorate	Issue	Actions
	Increased number of complaints to the Information Commissioner's Office (ICO) regarding information security incidents and alleged DPA breaches.	KCC's Senior Information Risk Owner (Director of Governance & Law) is overseeing work to improve corporate information governance and assurance and establish Information Risk Management as a core business activity, including mandatory IG training for all employees.
	Increased number of challenges to procurement processes run by the Council.	The Strategic Sourcing and Procurement team are engaging/must engage with Legal Services to ensure that all legally complex elements of procurement processes are dealt with.
	Multiple transformation programmes planned for 2013-15, placing increased demands on ICT.	Development of a single integrated technical architecture will be critical to controlling cost of technical investment.
	The Basic Need Programme is a national programme for providing additional school places with a very tight timescale. There is a risk that Property may not be able to deliver what is required within the timescale.	To ensure delivery, Basic Need Programme has been prioritised and will be regularly reviewed.
	There is a need for reducing the cost of the KCC operational office estate by implementing a modernised fit for purpose workplace environment.	New Ways of Working strategy approved by P&R Cabinet Committee, programme funding structure and management established and regularly monitored. Implementation now ongoing.
	The Corporate Programme Office has identified capacity and capability gaps in parts of the council's delivery of change project and programmes, which limit its ability to provide necessary assurance to CMT and Cabinet.	In order to improve project and programme governance and discipline, it will be necessary to improve the council's overall approach to change management. Options for enhanced arrangements for the delivery of strategic change projects and programmes will be considered and approved by CMT and Cabinet in spring/summer 2013.
	As part of the ongoing strengthening of compliance with KCC Procurement Standards, we will closely monitor Public Health's compliance.	This will be addressed by Public Health staff working closely with the Corporate Procurement team on any procurement they undertake. Monitored by the Director of Public Health and the Corporate Director of Finance.
Customer & Communities		
	Kent Cultural Trading.	Actions identified by Internal Audit carried out. Company ceased trading. Company to be dissolved. Robust monitoring systems in place.
	Implementation of the Customer Service Strategy has identified weaknesses in CRM and the County Council's website.	These are being addressed.
	Actions identified by Internal Audit to improve financial controls in Community Learning & Skills require to be addressed.	Ian Forward, Head of Service for Community Learning & Skills, will implement all necessary measures during 2013-14

Directorate	Issue	Actions
	No Communications Strategy.	Strategy agreed. Team restructured. Account management teams for each directorate in place.
	Council's website platform due to expire March 2013.	New platform purchased. Work underway to build new content due for completion by end of 2013.
	Transfer of public health.	Support in place including account manager. Scoping future needs that require resources.
	Engagement strategy to be improved.	Options to be presented in Summer 2013.
	Troubled Families business cases to be managed against clear criteria of outcome and sustainability.	Troubled Families roll out prioritised across Kent
Education, Learning & Skills		
	Support and intervention to schools: Financial consequence of school restructuring and the impact on schools not significantly improving to good or outstanding.	A school improvement strategy is in place to reduce the risk of schools going into an Ofsted category and to ensure that more schools attain a judgement of good.
	SEN Transport Funding: A saving of £750k to be achieved from the SEN Transport Budget in 2013-14 and again in 2014-15.	Saving to be delivered by personalising budgets and creating behavioural changes in parental practice. Pilot underway from March 2013, following evaluation this will be rolled out to the rest of the County.
	SEN Provision and Places: Demand for specialist provision and placement for pupils with statements of SEN exceeds the availability of places in Kent maintained schools.	Development of the Kent SEND strategy – currently out to consultation.
	Academies Independence from KCC: Schools seeking to convert to Academy status without a 3 way Commercial Transfer Agreement (CTA).	Dialogue with DfE ongoing regarding the rationale for Kent's CTA template and to ensure that any school converting to academy status has a requirement to comply with the Kent CTA.
	School Provision Planning: A significant expansion of schools is required to accommodate major population growth in the short to medium term (primary) and long term (Secondary)	The development and annual review of the Kent Commissioning Plan for School Places will ensure that forecast expansions is mapped and costed. The school expansion programme is under member scrutiny and reviewed by relevant Education and Property programmes/
	Schools with potential deficit budgets: Impact of a the third year of flat cash DSG settlement for schools together with major national changes to school funding and formula will put a significant pressure on a number of schools in the short to medium term.	Issue is continually raised with DfE, schools and governors, Joint work is underway with school improvement colleagues to identify those schools at most risk as result of the financial changes so that a joint Finance / School Improvement approach to supporting schools is developed.

Directorate	Issue	Actions
Enterprise & Environment		
	Work closely with corporate colleagues to manage the highway tree risk associated with the Ash Die Back to mitigate the environmental and economic impact.	A strategic co-ordinating group has been established to focus on the issue of Ash Dieback. Highways & Transportation are represented on this group.
	Review the outcomes from the Internal Audit of the Enterprise Term Maintenance Contract to identify any improvements of delivery or outcomes.	Highways & Transportation await the outcomes of the Enterprise Term Maintenance Contract Internal Audit. A compliance strategy has been in place since the start of the contract, which measures governance procedures and processes.
	Ensure the successful first year operation of the new Consultancy Contract with Amey and drive benefit from the Operational Performance Measures put in place to drive service improvement and value for money.	We are 2 months into this contract and the operational metrics are already showing promising levels of performance; a measurement strategy applies to this contract.
	Business continuity plan testing showed the need to be clearer about the information contained in the Mataco (web based business continuity planning tool) version of the plan.	Plans are in place to enhance this information.
Commercial Services		
	All CS Policies need to be reviewed & revised to suit the new operation and recognise the organisational distinction between KCC & CS.	The Corporate Director – Enterprise & Environment, as the Chair of the Commercial Services Shareholder Board, will monitor and oversee the activities of the companies, and complete the transformation of its governance arrangements with the appointment of independent non-Executive Directors.
	Rights & responsibilities of KCC as Shareholder of the new companies need to be codified and agreed by both parties.	
	Governance of the new companies to be improved to comply with best practice, including NEDs and relevant Committees.	
Families & Social Care		
	Kent Integrated Children's Services Board	This has been set up with ELS and Communities to ensure that there is clear oversight of all services to children and to ensure delivery of the statutory functions of the Lead Member for Children Services and Director of Children Services.
	Adult Social Care Transformation: redesigning how adult social care is delivered to improve outcomes for people while building a sustainable social care market.	The programme has identified key steps to deliver these and associated savings.
	Improving Specialist Children's Services: implementation of the Children's Services Improvement Plan.	Move to Phase 3 to ensure long term basis for providing excellent services to vulnerable children.

Directorate	Issue	Actions
	Safeguarding Vulnerable Adults: audits of safeguarding investigations in both KCC and partner organisations to ensure best practice consistently delivered.	Areas identified where key internal controls need to be enhanced or where resource constraints may have a significant impact: · Financial management · Impact of the new NHS architecture · Information governance

Appendix A: Published Sources of Assurance

Code of Corporate Governance (Appendix 10 of the Constitution)
Vision for Kent County Council
Kent Forum reports and minutes
Bold Steps for Kent Corporate Plan 2012
Business Plans
Quarterly Performance Reports
Internal Audit Annual Plan 2012-13
Internal Audit Annual Report 2012-13
Pay Policy 2012-13
External Audit Annual Audit Letter 2011-12
Task and Finish Group reports
Governance and Audit Committee Terms of Reference and work plan 2012-13
Ofsted Reports
Statement of Accounts and Medium Term Financial
Committee minutes, agendas and reports 2012-13
Annual report on complaints

Paul Carter
Leader
On behalf of Kent County Council

David Cockburn
Head of Paid Service

Glossary of terms

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

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 Service Reporting 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.

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.

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.

Glossary of terms

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.

Revenue expenditure funded from capital under statute (Refcus)
Refcus includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset.

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.

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Treasury and Investments

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County Hall, Maidstone,
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24 July 2013

Dear Sirs

Kent County Council Superannuation Fund - Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with your audit of the financial statements of the Kent County Council Superannuation Fund (the Fund) for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code).

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

2. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

5. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

6. The financial statements are free of material misstatements, including omissions.

7. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

8. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

9. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

10. We have provided you with:
    a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    b. additional information that you have requested from us for the purpose of your audit; and
    c. unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

12. All transactions have been recorded in the accounting records and are reflected in the financial statements.

13. We are not aware of any fraud or suspected fraud affecting the Fund involving:
    a. management;
    b. employees who have significant roles in internal control; or
    c. others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

15. We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

16. There have been no communications with The Pensions Regulator or other regulatory bodies during the fund year or subsequently concerning matters of non-compliance with any legal duty.

17. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

18. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

19. We confirm that no member of the Kent County Council Superannuation Fund Committee is connected with, or is an associate of, Grant Thornton UK LLP which would render Grant Thornton UK LLP ineligible to act as auditor to the Fund under section 27 of the Pensions Act 1995.

Other

20. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

21. We confirm that we are not aware of any late contributions or breaches of the payment schedule that have arisen which we considered required reporting under the easement introduced under The Occupational Pension Funds (Miscellaneous Amendments) Regulations 2000.

22. We have not commissioned any advisory reports which may affect the conduct of your work in relation to the Fund's financial statements and payment schedule.

Yours faithfully

Andy Wood
Corporate Director of Finance and Procurement
Kent County Council

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By:	Cabinet Member for Finance and Procurement Corporate Director of Finance and Procurement
To:	Governance and Audit Committee – 24 July 2013
Subject:	**TREASURY MANAGEMENT ANNUAL REVIEW 2012-13**
Classification:	Unrestricted

Summary: To report a summary of Treasury Management activities in 2012-13

FOR DECISION

INTRODUCTION

1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.

2. Treasury Management is defined as: "the management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

3. Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

4. This report:

   - Is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;

   - Reports on the implications of treasury decisions and transactions;

   - Gives details of the outturn position on treasury management transactions in 2012-13;

   - Confirms compliance with its Treasury Management Strategy Statement, Treasury Management Practices and Prudential Indicators.

5. When this report is agreed by this Committee it will then go forward to full Council.

ECONOMIC BACKGROUND

6. The global outlook stabilised mainly due to central banks maintaining low interest rates and expansionary monetary policy for an extended period. Equity market assets recovered sharply with the FTSE 100 registering a 9.1% increase over the year. This was despite economic growth in G-7 nations being either muted or disappointing and economic growth in China cooling..

7. In the UK the economy shrank in the first, second and fourth quarters of calendar year 2012. It was the 0.9% growth in the third quarter, aided by the summer Olympic Games, which allowed growth to register 0.2% over the calendar year 2012. The expected boost to net trade from the fall in the value of sterling did not materialise, but raised the price of imports, especially low margin goods such as food and energy. Avoiding a ‘triple-dip’ recession became contingent on upbeat services sector surveys translating into sufficient economic activity to overhaul contractions in the struggling manufacturing and construction sectors.

8. Household financial conditions and purchasing power were constrained as wage growth remained subdued at 1.2% and was outstripped by inflation. Annual CPI dipped below 3%, falling to 2.4% in June before ticking up to 2.8% in February 2013. Higher food and energy prices and higher transport costs were some of the principal contributors to inflation remaining above the Bank of England’s 2% CPI target.

9. The lack of growth and the fall in inflation were persuasive enough for the Bank of England to maintain the Bank Rate at 0.5% and also sanction additional £50 billion asset purchases (QE) in July, taking total QE to £375 billion. The possibility of a rate cut was discussed at some of Bank’s Monetary Policy Committee meetings, but was not implemented as the potential drawbacks outweighed the benefits of a reduction in the Bank Rate. In the March 2013 Budget the Bank’s policy was revised to include the 2% CPI inflation remit alongside the flexibility to commit to intermediate targets.

10. The resilience of the labour market, with the ILO unemployment rate falling to 7.8%, was the main surprise given the challenging economic backdrop. Many of the gains in employment were through an increase in self-employment and part time working.

11. The Chancellor largely stuck to his fiscal plans with the austerity drive extending into 2018. In March the Office for Budgetary Responsibility (OBR) halved its forecast growth for 2013 to 0.6% which then resulted in the lowering of the forecast for tax revenues and an increase in the budget deficit. The government is now expected to borrow an additional £146bn and sees gross debt rising above 100% of GDP by 2015-16. The fall in debt as a percentage of GDP, which the coalition had targeted for 2015-16, was

pushed two years beyond this horizon. With the national debt metrics out of kilter with a triple-A rating, it was not surprising that the UK's sovereign rating was downgraded by Moody's to Aa1. The AAA status was maintained by Fitch and S&P, albeit with a Rating Watch Negative and with a Negative Outlook respectively.

12. The government's Funding for Lending (FLS) initiative commenced in August 2012 which gave banks access to cheaper funding on the basis that it would then result in them passing this advantage to the wider economy. There was an improvement in the flow of credit to mortgagees, but was still below expectation for SMEs.

13. Gilt yields ended the year lower than the start in April. By September the 2-year gilt yield had fallen to 0.06%, raising the prospect that short-dated yields could turn negative. 10-year yields fell by nearly 0.5% ending the year at 1.72%. The reduction was less pronounced at the longer end; 30-year yields ended the year at 3.11%, around 25bp lower than in April. Despite the likelihood that the Debt Management Office would revise up its gilt issuance for 2012-13, there were several gilt-supportive factors: the Bank of England's continued purchases of gilts under an extended QE programme; purchases by banks, insurance companies and pension funds driven by capital requirements and the preference for safe harbour government bonds.

14. One direct consequence of the Funding for Lending Scheme was the sharp drop in rates at which banks borrowed from local government. 3-month, 6-month and 12-month Libid rates which were 1%, 1.33% and 1.84% at the beginning of the financial year fell to 0.44%, 0.51% and 0.75% respectively.

BORROWING REQUIREMENT AND DEBT MANAGEMENT

15. The overall borrowing position is summarised below:

	Balance on 01/04/2012 £m	**Debt Maturing £m**	**New Borrowing £m**	**Balance on 31/3/2013 £m**	**Average Rate %**
CFR	1,496			1,465	
Long Term Borrowing	1,089	77		1,012	5.44
Other Long Term Liabilities	1,134			1,155	
TOTAL EXTERNAL DEBT	2,223			2,167	
Decrease in Borrowing				77	

16. The PWLB remains the Council's preferred source of borrowing given the transparency and control that its facilities continue to provide. The Certainty

Rate was introduced by the PWLB in November 2012, allowing the authority to borrow at a reduction of 20bps on the Standard Rate.

17. Given the large differential between short and longer term interest rates, which is likely to remain a feature for some time in the future, as well as the pressure on Council finances, the debt management strategy sought to lower debt costs within an acceptable level of volatility (interest rate risk). The strategy followed was to minimise debt interest payments without compromising the longer-term stability of the portfolio. The differential between the cost of new longer-term debt and the return generated on the Council's temporary investment returns was significant (between 2-3%). The use of internal resources in lieu of borrowing was judged to be the most cost effective means of funding £77.0m of maturing loans as well as £22.3m of capital expenditure. This has, for the time being, lowered overall treasury risk by reducing both external debt and temporary investments. This strategy is expected to be maintained in 2013-14.

18. No debt rescheduling was undertaken in the year.

19. Changes in the debt portfolio over the year have achieved a reduction in the overall debt cost by £2.27m whilst reducing the average life from 30.13 years to 29.86 years.

INVESTMENT ACTIVITY

20. The CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

Investment Activity in 2012-13

Investments	Balance on 01/04/2012 £m	Deposits Made £m	Maturities £m	Balance on 31/03/2013 £m	Avg Rate % / Avg Life (yrs)
Short Term Investments	272	2,498	2,509	261	0.81%/ 0.05
Long Term Investments	10	0	10	0	3.95% / 0.36
TOTAL INVESTMENTS	282	2,498	2,519	261	0.93% / 0.06
Decrease in Investments				21	

21. Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2012-13. Investments during the year included

22. Term Deposits and Certificates of Deposit (CDs) with the following UK Banks and Building Societies systemically important to the UK:

- Barclays
- HSBC
- Lloyds Banking Group
- Royal Bank of Scotland
- NatWest
- Santander UK
- Standard Chartered
- Nationwide

and in T-Bills and DMADF (Debt Management Office) deposits.

23. Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2012-13 treasury strategy was A-/A-/A3 across rating agencies Fitch, S&P and Moody's. In June 2012 Moody's completed its review of banks with global capital market operations, downgrading the long-term ratings of all of them by between one to three notches. The banks on the Council's lending list which were affected by the ratings downgrades were Barclays, HSBC, Royal Bank of Scotland. Separately, the agency also downgraded the ratings of Lloyds Bank, Bank of Scotland, National Westminster Bank and Santander UK plc. None of the long-term ratings of the banks on the Council's lending list were downgraded to below the Council's minimum A- credit rating threshold.

24. As a result of the ratings downgrades deposit durations were shortened in June. They were then extended at the end of July having taken account of advice from Arlingclose whose assessment of the creditworthiness of the financial institutions had shown continued signs of stabilisation, and in some cases, considerable improvement. At the present time the Council's maximum maturities for new investments are:

- Santander UK **- overnight**
- Royal Bank of Scotland, NatWest, Barclays and Nationwide for a maximum period of **100 days**
- Lloyds TSB and Bank of Scotland, for a maximum period of **6 months**
- HSBC Bank and Standard Chartered for a maximum period of **12 months**.

25. At its meeting in September Cabinet approved the use of the following Australian and Canadian counterparties. At the current time not all of the banks listed take deposits and rates are quite low. However, we now have

alternative options to using the DMO in the event of further downgrades of UK financial institutions.

- Australia and New Zealand Banking Group
- National Australia Bank
- Westpac Banking Corp
- Commonwealth Bank of Australia
- Bank of Montreal
- Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- Toronto Dominion Bank

26. The maximum duration is 12 months and the maximum limit with any one bank is £25m with the maximum exposure to either country being £50m. To date no deposits have been made with these counterparties.

27. Counterparty credit quality has weakened slightly as demonstrated by the Credit Score Analysis summarised below. The table in Appendix 4 explains the credit score.

Credit Score Analysis

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2012	5.25	A+	5.44	A+	40
30/06/2012	4.17	A--	4.09	A--	53
30/09/2012	5.37	A+	5.30	A+	34
31/12/2012	6.06	A	6.05	A	25
31/03/2013	6.04	A	6.04	A	25

28. In keeping with CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of overnight deposits and call accounts.

29. The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained

at very low levels (as shown in table 1 in Appendix 3) which had a significant impact on investment income.

30. The Council's investment income for the year was £2.0m compared with a budget of £2.7m. The Council held average cash balances of £297.67m during the year. These represented working cash balances / capital receipts, and the Council's reserves.

31. Deposits as at 31 March 2013 are shown in Appendix 2.

ICELANDIC EXPOSURE

32. The Council had an exposure of £50.35m to Icelandic Banks (£15.0m Glitnir, £17.0m Landsbanki and £18.35m Heritable). In October 2011 the Icelandic Supreme Court confirmed that UK local authorities were preferred creditors in Glitnir and Landsbanki. This will result in 100% recoveries on both banks.

33. Glitnir – in March 2012 a full recovery was made – 18% of the total payment was in Icelandic Krona and this is still held in an interest bearing escrow account in Iceland. UK local Council representatives continue to pursue a resolution of this issue.

34. Landsbanki – it is expected that 100% will be recovered overall. Dividends to the value of 49.65p in the £ have now been made – only 2% was in Icelandic Krona. Regular dividend payments are expected every December until December 2019.

35. Heritable – formally the expected recovery is 88p/£ and 77.28% has been recovered to date with a further 2% due in 2013-14. There have been positive developments since the CIPFA accounting guidance was issued and the projected recovery will move up significantly in August. 2013.

36. Total recoveries received to date are £36.99m. The Council will comply with the CIPFA Guidance on the accounting arrangements for the deposits and dividends.

COMPLIANCE

37. The Council can confirm that it has complied with its Prudential Indicators for 2012-13, which were set as part of the Council's Treasury Management Strategy Statement. Details can be found in Appendix 1.

38. The Council's Treasury activity has complied with its Treasury Management Strategy and Treasury Management Practices. No control issues were identified when the treasury management activities were once again subject to internal audit by Deloittes.

TREASURY ADVISER

39. KCC currently contracts with Arlingclose as Treasury Advisers.

RECOMMENDATION

40. Members are asked to agree the report and recommend that it is submitted to County Council.

Alison Mings
Treasury and Investments Manager
Ext: 7000 6294

Appendix 1

2012-13 Prudential Indicators

1. Estimate of capital expenditure (excluding PFI and Schools)

Actual 2011-12 £266m

Original estimate 2012-13 £279m

Revised estimate 2012-13 £207m (this includes the rolled forward re-phasing from 2011-12)

Actual 2012-13 £161m

2. Capital Financing Requirement (CFR)

	2011-12 Actual £m	2012-13 Original Estimate £m	2012-13 Actual £m
CFR	1,496	1,538	1,465
Annual increase/(decrease) in underlying need to borrow	(22)	22	(31)

In the light of current commitments and planned expenditure, forecast net borrowing by the Council will not exceed the Capital Financing Requirement.

3. Estimate of ratio of financing costs to net revenue stream

Actual 2011-12 12.85%
Original estimate 2012-13 11.77%
Actual 2012-13 14.55%

The 2011-12 and 2012-13 Actual percentages include PFI Finance Lease costs but these were not included in the 2012-13 original estimate calculation.

4. Operational Boundary for External Debt

The operational boundary for debt is determined having regard to actual levels of debt, borrowing anticipated in the capital plan, the requirements of treasury strategy and prudent requirements in relation to day to day cash flow management.

Operational boundary for debt relating to KCC assets and activities

	2012-13 Approved £m	2012-13 Actual £m
Borrowing	1,154	969
Other Long Term Liabilities	0	1,155
Total	**1,154**	**2,124**

Operational boundary for total debt managed by KCC including that relating to Medway Council etc (pre Local Government Reorganisation)

	2012-13 Approved £m	2012-13 Actual £m
Borrowing	1,198	1,012
Other Long Term Liabilities	0	1,155
Total	**1,198**	**2,167**

5. Authorised Limit for external debt

The authorised limit includes additional allowance, over and above the operational boundary to provide for unusual cash movements. It is a statutory limit set and revised by the County Council.

Authorised limit for debt relating to KCC assets and activities

	2012-13 Approved £m	2012-13 Actual £m
Borrowing	1,195	1,195
Other long term liabilities	0	1,155
Total	**1,195**	**2,350**

Authorised limit for total debt managed by KCC including that relating to Medway Council etc(pre Local Government Reorganisation)

	2012-13 Approved £m	2012-13 Actual £m
Borrowing	1,238	1,238
Other long term liabilities	0	1,155
Total	**1,238**	**2,393**

The additional allowance over and above the operational boundary has not needed to be utilised and external debt, has and will be maintained well within the authorised limit.

6. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

The Council has adopted the Code of Practice on Treasury Management and has adopted a Treasury Management Policy Statement. Compliance has been tested and validated by our independent professional treasury advisers.

7. Upper limits of fixed interest rate and variable rate exposures

The Council has determined the following upper limits for 2012-13

Fixed interest rate exposure	100%
Variable rate exposure	50%

These limits have been complied with in 2012-13.

8. Upper limits for maturity structure of Fixed Rate Borrowings

	Upper limit	Lower limit	Actual
	%	%	%
Under 12 months	10	0	0
12 months and within 24 months	25	0	0.2
24 months and within 5 years	40	0	8.8
5 years and within 10 years	30	0	10.7
10 years and within 20 years	30	10	12.0
20 years and within 30 years	30	5	14.7
30 years and within 40 years	30	5	12.9
40 years and within 50 years	40	10	17.8
50 years and within 60 years	40	10	22.9

9. Upper limit for principal sums invested for periods longer than 364 days

Approved	Actual
£m	£m
50	10

Appendix 2

Deposits as at 31 March 2013

Instrument Type	Counterparty	Principal Amount	End Date	Interest Rate	Territory
	Total Icelandic Bank Deposits	**£16,342,120**			
Same Day Call Deposit	Bank of Scotland	£15,000,000	n/a	0.75	UK Bank
Fixed Deposit	Bank of Scotland	£5,000,000	07/05/2013	1.6	UK Bank
Fixed Deposit	Bank of Scotland	£5,000,000	30/09/2013	0.8	UK Bank
Fixed Deposit	Barclays Bank	£5,000,000	31/05/2013	6.8	UK Bank
Same Day Call Deposit	Barclays Bank	£19,400,000	n/a	0.35	UK Bank
Same Day Call Deposit	Barclays FIBCA	£20,000,000	n/a	0.7	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	03/05/2013	1.6	UK Bank
Same Day Call Deposit	Lloyds TSB	£15,000,000	n/a	0.75	UK Bank
Fixed Deposit	Lloyds TSB	£10,000,000	15/05/2013	0.7	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	19/08/2013	0.8	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	21/08/2013	0.8	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	27/06/2013	0.7	UK Bank
Fixed Deposit	Lloyds TSB	£5,000,000	27/09/2013	0.8	UK Bank
Same Day Call Deposit	NatWest	£25,000,000	n/a	0.8	UK Bank
LIBOR Fixed Deposit	Royal Bank of Scotland	£5,000,000	18/10/2013	1.1113	UK Bank
Same Day Call Deposit	Royal Bank of Scotland	£45,000,000	n/a	1.25	UK Bank
Same Day Call Deposit	Santander UK	£50,000,000	n/a	0.8	UK Bank
	Total UK Bank Deposits	**£244,400,000**			
	Grand Total of All Deposits	**£260,742,120**			

Table 1: Bank Rate, Money Market Rates

Date		Bank Rate		O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2012		0.50		0.55	0.55	0.61	1.00	1.33	1.84	1.24	1.30	1.59
30/04/2012		0.50		0.50	0.65	0.60	0.99	1.32	1.84	1.35	1.43	1.68
31/05/2012		0.50		0.48	0.65	0.57	0.97	1.30	1.82	1.20	1.20	1.34
30/06/2012		0.50		0.50	0.50	0.55	0.83	1.13	1.65	0.96	0.99	1.25
31/07/2012		0.50		0.50	0.65	0.45	0.63	0.92	1.43	0.76	0.77	1.02
31/08/2012		0.50		0.50	0.52	0.40	0.57	0.81	1.23	0.75	0.78	1.01
30/09/2012		0.50		0.25	0.52	0.40	0.47	0.66	0.95	0.70	0.76	1.00
31/10/2012		0.50		0.25	0.44	0.40	0.44	0.55	0.82	0.69	0.77	1.05
30/11/2012		0.50		0.25	0.30	0.40	0.44	0.54	0.80	0.73	0.80	1.05
31/12/2012		0.50		0.25	0.43	0.40	0.44	0.54	0.80	0.69	0.76	1.00
31/01/2013		0.50		0.42	0.43	0.40	0.44	0.54	0.80	0.73	0.86	1.17
29/02/2013		0.50		0.41	0.42	0.40	0.44	0.54	0.80	0.59	0.69	1.05
31/03/2013		0.50		0.40	0.40	0.40	0.44	0.51	0.75	0.59	0.68	0.97
Minimum		0.50		0.25	0.30	0.40	0.44	0.51	0.75	0.55	0.65	0.90
Average		**0.50**		0.39	0.49	0.45	0.62	0.82	1.19	0.84	0.90	1.17
Maximum		0.50		0.55	0.65	0.61	1.00	1.33	1.84	1.38	1.45	1.72
Spread		--										

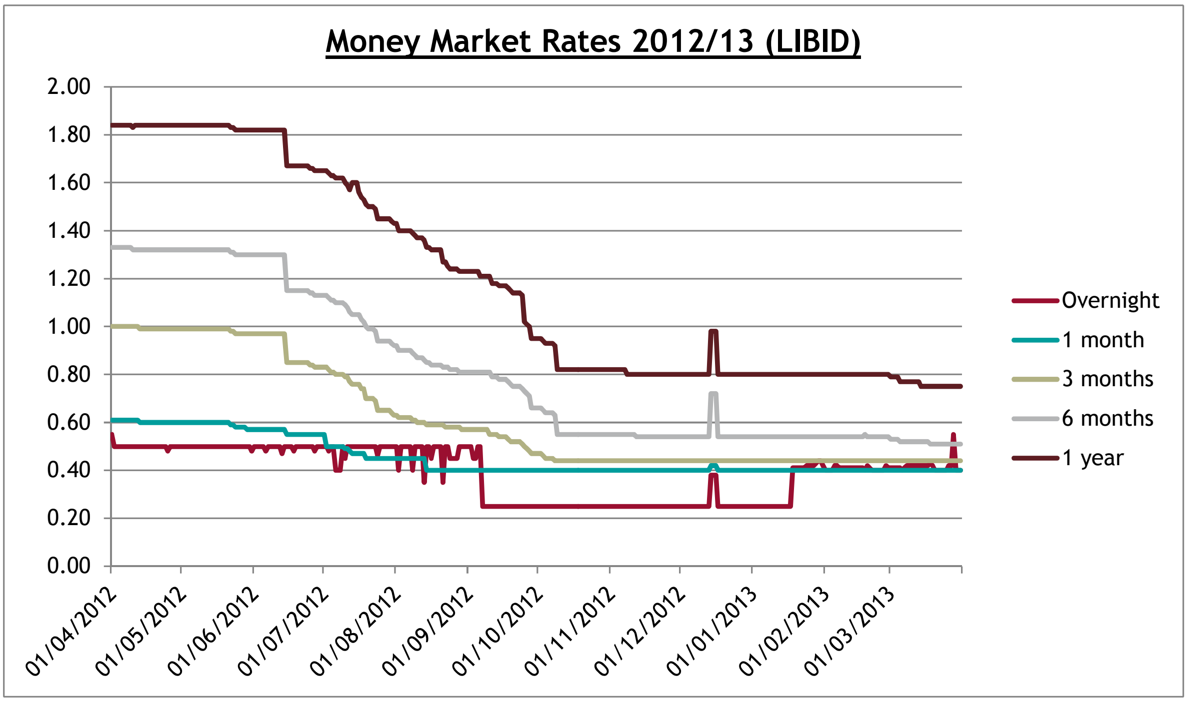
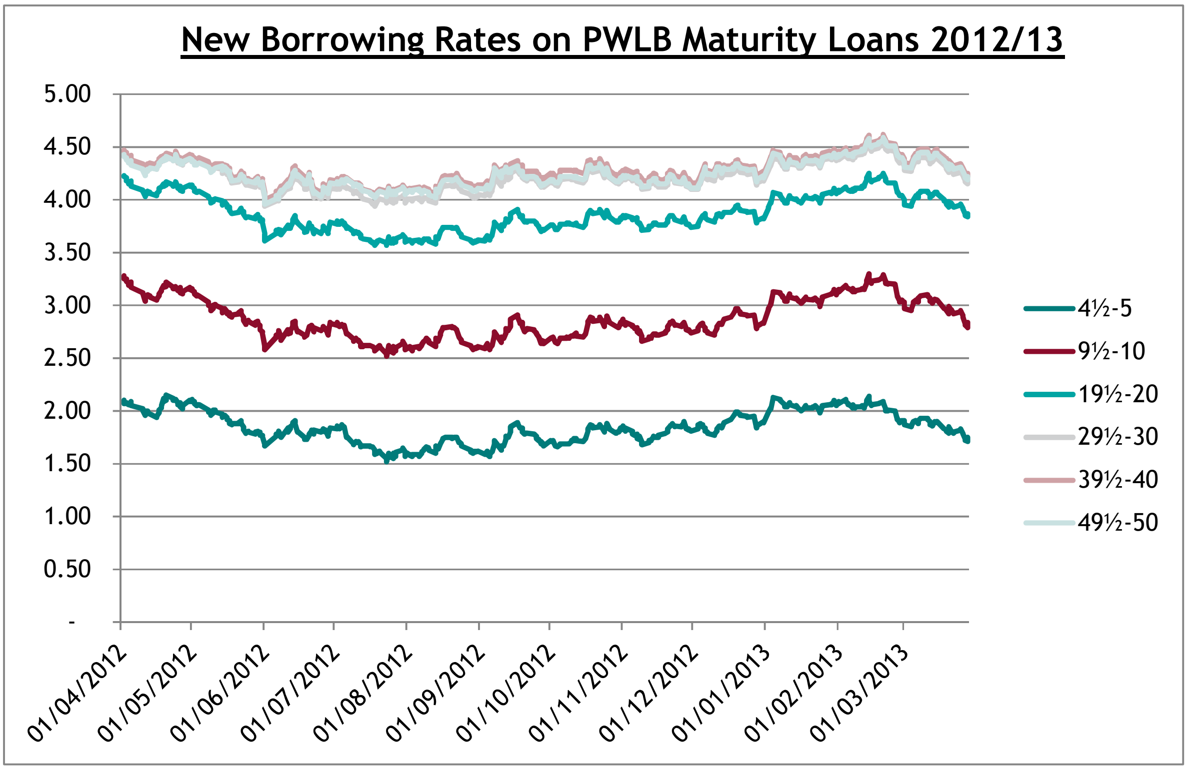


Table 2: PWLB Borrowing Rates – Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
02/04/2012	130/12	1.29	2.07	3.25	4.22	4.43	4.46	4.41
30/04/2012	166/12	1.31	2.09	3.15	4.13	4.38	4.42	4.39
31/05/2012	210/12	1.19	1.76	2.74	3.79	4.13	4.19	4.16
29/06/2012	248/12	1.2	1.84	2.83	3.79	4.11	4.19	4.16
31/07/2012	292/12	1.01	1.57	2.58	3.6	3.97	4.07	4.05
31/08/2012	336/12	1.07	1.62	2.61	3.62	4.05	4.14	4.11
28/09/2012	376/12	1.15	1.67	2.64	3.71	4.12	4.2	4.14
28/10/2012	422/12	1.19	1.82	2.82	3.81	4.17	4.25	4.19
30/11/2012	466/12	1.22	1.81	2.74	3.74	4.1	4.16	4.11
31/12/2012	504/12	1.22	1.89	2.83	3.82	4.18	4.25	4.21
31/01/2013	044/13	1.26	2.06	3.1	4.06	4.37	4.43	4.4
28/02/2013	084/13	1.16	1.91	3.04	4.04	4.36	4.43	4.4
28/03/2013	124/13	1.13	1.75	2.84	3.87	4.18	4.25	4.22
	Low	1.01	1.57	2.58	3.60	3.97	4.07	4.05
	Average	1.18	1.84	2.86	3.86	4.20	4.26	4.23
	High	1.31	2.09	3.25	4.22	4.43	4.46	4.41



Appendix 4

Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
Not rated	11
BB	12
CCC	13
C	14
D	15

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aimed to achieve a score of 7 or lower, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A- for investment counterparties.

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By:	Cabinet Member for Finance Corporate Director of Finance & Procurement
To:	Governance & Audit Committee – 24 July 2013
Subject:	**DEBT MANAGEMENT**
Classification:	Unrestricted

Summary: To report on the Council's debt position

FOR ASSURANCE

INTRODUCTION

1. The purpose of this report is to provide the Governance and Audit Committee with assurance on the Council's outstanding debt position.

2. This report concentrates mainly on debt over 6 months old.

MANAGEMENT SUMMARY

3. The overall outstanding debt as at 31 May 2013 as shown on Oracle Accounts Receivable Business Intelligence Suite is £38,849,503.77. This represents social care debt from SWIFT of £18,793,191.95 (29,550 invoices) and sundry debt of £20,056,311.82 (3,226 invoices). Any debts paid by instalments but originating from a single invoice are counted only once. The sundry debt figures include Health debt of £5,109,371.87, although please see Paragraph 15 for further details of this.

4. The detail around the Social Care element of debt can be found in sections 14 - 20, with earlier sections referring to AR sundry debt only. The Social Care debt reflects the four weekly client billing process run on 28 May 2013.

5. Please note that throughout this report Business and Strategic Support (BSS) will include the old Chief Executive debt; Education and Learning Skills (ELS) will include the old CFE debt; Enterprise & Environment (E&E) will include the old EHW debt; Customers & Communication (C&C) will include old Communities debt; and Families & Social Care (FSC) will include the old KASS debt. We are unable to retrospectively amend Oracle to reflect the current directorate structure. The debt reporting is calculated from the invoice due date and not the invoice date for Sundry Debt, but is based on invoice date for Social Care debt owing

to the ongoing nature of the billing through which invoices are issued every four weeks.

6. The table below is an analysis of the summary position as at 31 May 2013:

Directorate	Not Yet Due	AR Overdue 0-60 Amount	AR Overdue 61-181 Amount	AR Overdue 182+ Amount	Total AR Outstanding Amount	Total Overdue Debt
BSS	£318,378.91	£3,515,700.46	£65,978.48	£166,836.99	£4,066,894.84	**£3,748,515.93**
C&C	£243,450.49	£154,878.73	£36,761.39	£228,120.99	£663,211.60	**£419,761.11**
E&E	£903,170.56	£3,837,791.37	£44,668.96	£176,840.87	£4,962,471.76	**£4,059,301.20**
EDUKENT	£161,977.43	£128,180.24	£45,070.75	£8,520.82	£343,749.24	**£181,771.81**
ELS	£344,834.77	£245,838.41	£439,058.70	£236,516.54	£1,266,248.42	**£921,413.65**
FSC	£3,041,220.34	£4,357,887.27	£551,918.02	£802,710.33	£8,753,735.96	**£5,712,515.62**
Grand Total	**£5,013,032.50**	**£12,240,276.48**	**£1,183,456.30**	**£1,619,546.54**	**£20,056,311.82**	**£15,043,279.32**

PERFORMANCE

7. There are two performance indicators that the Debt Recovery Team aims to achieve. The percentages are based on the total outstanding unsecured debt.

- Total outstanding sundry debt under 60 days old – greater than 75%
- Total outstanding sundry debt over 6 months old – less than 20%

As at 31 May 2013, 86.02% of the total sundry outstanding debt was under 60 days old whilst 8.07% was over 6 months old. Both statistics are therefore significantly within target.

DEBT LEVELS OVER SIX MONTHS OF AGE

8. Over the page is an analysis of the categories of debt over 6 months old by Directorate, followed by more detailed analysis. Some invoices are currently marked as “untagged” – this is due to the fact that some invoices are chased directly by the Directorate responsible for them – and they are thus responsible for changing the tag status. The tag status “KCS” refers to those payments made to Kent County Supplies rather than Kent County Council in error. KCS are responsible for identifying these incorrect payments and transferring the monies to KCC.

9. BSS

DEBT CATEGORY	BSS
AR SECURED DEBT	£8,027.75
AUTOMATIC WRITEBACK	£351.61
EDUKENT	£0.00
A&I UNIT ONGOING ACTION	£7,002.07
INSTALMENT - SMALL CLAIMS	£0.00
INSTALMENTS	£6,815.26
LIQ'S/INSOLV'S/RECV	£4,200.00
PAID TO KCS IN ERROR	£397.72
REFERRED TO LEGAL	£1,012.65
REFERRED FOR WRITE OFF	£11,386.18
REFERRED TO DIRECTORATE	£122,978.63
SMALL CLAIMS COURT	£4,665.12
Grand Total	**£166,836.99**

- The £123k marked as Referred to Directorate represents 38 invoices, the largest being a repayment of an empty property loan of £100k. Discussions with Legal and the Regeneration Manager are ongoing in order to secure the debt.

10. ELS

DEBT CATEGORY	ELS
EDUKENT	£5,896.47
A&I UNIT ONGOING ACTION	£11,018.73
INSTALMENTS	£12,199.70
PAID TO KCS IN ERROR	£355.00
REFERRED FOR WRITE OFF	£2,234.65
REFERRED TO DIRECTORATE	£70,188.25
REFERRED TO LEGAL	£132,426.27
SMALL CLAIMS COURT	£2,097.47
UNTAGGED	£100.00
Grand Total	**£236,516.54**

- The £70.2k marked as Referred to Directorate for action represents 14 invoices.

- The £132k marked as Referred to Legal represents 5 invoices and seeking legal advice is part of the escalation process. The largest of which is £113k raised to Maidstone & Tunbridge Wells NHS Trust, for Portage Services and referred to the ELS Finance Business Partner.

11. E&E

DEBT CATEGORY	E&E
AUTOMATIC WRITEBACK	£1,502.40
EDUKENT	£100.00
A&I UNIT ONGOING ACTION	£20,364.59
INSTALMENTS	£451.21
INSURANCE	£37,577.85
LIQ'S/INSOLV'S/RECV	£1,227.69
REFERRED FOR WRITE OFF	£934.69
REFERRED TO DIRECTORATE	£66,365.53
REFERRED TO LEGAL	£12,114.59
UNTAGGED	£36,202.32
Grand Total	**£176,840.87**

- The £66.4k marked as Referred to Directorate for Action represents 22 invoices, the largest being £12.8k to Morrisons Supermarkets (Development), Bradford. The Debt team are in liaison with the Directorate who have recently provided the debtor with a copy invoice and requested payment.

12. FSC

DEBT CATEGORY	FSC
EDUKENT	£6,571.00
A&I UNIT ONGOING ACTION	£26,078.95
HEALTH DEBT - UNSECURED	£510,479.19
HEALTH DEBT - SECURED - WK	£44,912.40
INSTALMENT - SMALL CLAIMS	£1,997.54
INSTALMENTS	£34,064.43
LIQ'S/INSOLV'S/RECV	£293.27
REFERRED FOR WRITE OFF	£51,603.93
REFERRED TO DIRECTORATE	£44,477.64
REFERRED TO LEGAL	£76,715.80
SMALL CLAIMS COURT	£5,516.18
Grand Total	**£802,710.33**

- The £44.7K marked as Referred to Directorate for Action relates to 17 invoices. The largest value invoice is £6.3k.

- The total of the over six month debt value for Health Debt relates to 10 invoices. The highest value invoices are a combined sum of £266.3k raised in March 2011 to Lambeth Primary Care Trust in respect of reimbursement for CHC funding for a residential placement for the period June 2010 – March 2011. The Director of Learning Disability and Mental Health Services is in ongoing negotiation regarding this invoice.

13. C&C

DEBT CATEGORY	C&C
AR SECURED DEBT	£4,111.25
AUTOMATIC WRITEBACK	£605.98
EDUKENT	£969.60
A&I UNIT ONGOING ACTION	£9,312.02
INSTALMENTS	£1,181.79
LIQ'S/INSOLV'S/RECV	£1,172.44
REFERRED FOR WRITE OFF	£207,078.90
REFERRED TO DIRECTORATE	£2,262.75
SMALL CLAIMS COURT	£1,426.26
Grand Total	**£228,120.99**

- The £207.1k referred for write off includes 5 invoices only recently referred – where the company has ceased trading and has no assets.

14. EduKent

- For the first time this month, and to enable better monitoring, EduKent debt is being shown as a separate "Directorate" apart from ELS. As at the date of this report, the sum of £8,520.82 is allocated to this EduKent Debt and over six months' old. This represents 9 invoices. Future reports will make appropriate comparisons between past and future data.

INSTALMENT PAYMENTS

15. The table over represents the amount and value of debt being paid by instalments:

Sundry debt instalments as at 31 May 2013			Previous	Month
Directorate	Number of cases	Total Value	Number of cases	Total Value
FSC & KASS	35	57,229	35	58,017
ELS	25	34,262	27	36,391
BSS	23	55,405	20	54,602
E&E	8	8,979	8	10,035
C&C	5	3,414	5	3,536
BSS PROPERTY RENTALS	0	0	1	1,210
Total	**96**	**159,288**	**96**	**163,790**

SUNDRY HEALTH DEBT

16. The Sundry Health debt is analysed every four weeks by the Social Care Debt Recovery staff. The Sundry Health Debt as at 28 May 2013 was identified as being £5,109,371.87 comprising of 131 invoices. Analysis by debtor is as over:

Customer Name	Not Yet Due	0-60 Days	61 - 181 Days	182+ Days	Total
CONTINUING HEALTHCARE NHS NORFOLK	0.00	12,624.61	0.00	0.00	12,624.61
CONTINUING HEALTHCARE NHS WEST KENT CCG	0.00	10,425.64	0.00	0.00	10,425.64
DARTFORD & GRAVESHAM NHS TRUST	0.00	8,218.84	6,181.11	0.00	14,399.95
EAST KENT HOSPITALS UNIVERSITY NHS FOUNDATION TRUST	662.40	79,890.80	432.00	0.00	80,985.20
EASTERN & COASTAL KENT PRIMARY CARE TRUST	0.00	5,443.02	0.00	12,657.90	18,100.92
HIGHLAND HEALTH AND SOCIAL CARE PARTNERSHIP	0.00	100.00	0.00	0.00	100.00
KENT & MEDWAY NHS SOCIAL CARE PARTNERSHIP TRUST	48,701.64	85,100.58	61,648.84	0.00	195,451.06
KENT AND MEDWAY NHS SCPT T/AS KENT AND MEDWAY CFE M E SERVICES	0.00	0.00	180.00	0.00	180.00
KENT COMMUNITY HEALTH NHS TRUST	24,234.00	397,291.07	344,623.64	0.00	766,148.71
LAMBETH PRIMARY CARE TRUST	0.00	0.00	0.00	266,309.06	266,309.06
LONDON PORT HEALTH AUTHORITY	14,485.20	5,229.60	0.00	0.00	19,714.80
MAIDSTONE & TUNBRIDGE WELLS NHS TRUST	0.00	0.00	5,368.48	119,748.26	125,116.74
MEDWAY COMMUNITY HEALTHCARE CIC	0.00	8,935.00	0.00	0.00	8,935.00

MEDWAY PCT	0.00	0.00	10,083.90	0.00	10,083.90
NHS EASTERN AND COASTAL KENT PCT	0.00	2,739,980.12	20,716.68	0.00	2,760,696.80
NHS KENT AND MEDWAY	0.00	0.00	5,735.39	0.00	5,735.39
NHS LAMBETH	0.00	0.00	0.00	88,999.68	88,999.68
NHS MEDWAY	0.00	129,878.01	0.00	0.00	129,878.01
NHS PROFESSIONALS LIMITED	0.00	0.00	90.00	0.00	90.00
NHS WEST KENT CCG	1,186.08	0.00	0.00	0.00	1,186.08
WEST KENT PCT	0.00	588,766.25	5,444.07	0.00	594,210.32
Grand Total	**89,269.32**	**4,071,883.54**	**460,504.11**	**487,714.90**	**5,109,371.87**

TRENDS

17. Listed below is the outstanding debt over 6 months old as the percentage of the total debt as at 30 April for the last 5 years:

30-Apr-13	30-Apr-12	30-Apr-11	30-Apr-10	30-Apr-09	30-Apr-08
8%	12%	8%	6%	11%	12%

18. The numbers and values of invoices raised for the last 5 years are:

	2012-13	2011-12	2010-11	2009-10	2008-09
Number of invoices raised	28,353	32,029	29,336	30,369	34,097
Value of invoices raised	£237,392,631	£160,139,056	£176,597,554	£183,961,032	£183,804,045

WRITE OFFS

19. The table over shows the sum written off for 2013/14 as at 31 May 2013. The data is based on write offs input to the Receivables system in 2013/14 rather than the year they have been allocated to GL.

	Grand Total
KCC Adjustment Name	
BSS REVENUE DEBT	£3,570.96
C&C REVENUE DEBT	£2,480.42
E&E REVENUE DEBT	£2,482.26
ELS BAD DEBT	£53.62
ELS REVENUE DEBT	£9,393.96
FSC REVENUE DEBT	£3,979.17
Grand Total	**£21,960.39**

SOCIAL CARE DEBT

20. **Client Charging**

(i) Clients are financially assessed to determine their contribution towards either their residential or non residential care costs.

(ii) Residential Charging - This charging is distinct from non-residential charging in that councils have a duty to charge for services under Section 22 of the National Assistance Act 1948. Councils have no discretion in how they charge individuals, and all councils are required to do so.

(iii) Non-Residential Charging - Section 17 of the Health and Social Security and Social Services Adjudication Act 1983 gives councils the power to charge a person for non-residential services no more than it appears reasonable for them to pay. This means that each council has discretion in how they charge individuals for certain services and how much an individual has to contribute to the costs. In Kent we currently only charge for domiciliary type care, however following the decision by the Cabinet Member for Adult Social Care & Public Health, Kent has started charging for day care from 23rd July 2012.

(iv) In 2012/2013 the total amount of income charged to clients through the client billing system was £61,093,382.51. This is an increase of £1,116k compared to the previous financial year – and is likely to be as a result of the changes to the non-residential charging policy.

ANALYSIS OF CLIENT RELATED DEBT

21. As at the billing run on 28 May 2013 the overall client related social care debt stood at £18,901k. This debt can be broken down as follows:

Residential	£16,437k
Non-Residential	£2,464k
Total	**£18,901k**

22. Of the £18,901k only £14,076k is actually due for payment, invoices having only just been dispatched for the remaining £4,825k.

23. The £18,901k can be broken down between secured and unsecured debt as follows:

Customer Credit Status	28th May 2013
	£'000
Health	2
Secured	8,543
Unsecured	10,356
Grand Total	**18,901**

AGED ANALYSIS OF CLIENT RELATED DEBT

24. The table over shows an analysis of unsecured debt that is due for payment:

Sum of AR Outstanding Amount				
	Under Six Months	Six Months to a Year	Over One Year	Total Overdue
Total Unsecured	**2,321.7k**	**920.7k**	**2,646.8k**	**5,889.2k**

NUMBERS OF UNSECURED DEBTORS

25. There are currently 11,855 debtors which an unsecured debt. This figure includes both due and not yet due debts – which total £10,356k.

SOCIAL CARE DEBT MOVEMENTS

26. The two tables over show the movement in debt since April 2012, firstly in terms of total debt (due and not yet due, including secured and unsecured) and secondly the movements in unsecured overdue debt, which is the "highest" risk debt. Both tables show the breakdown of the movement by Locality; additionally the second table shows the position as at April 2011 and April 2010.

Total Debt Locality	28th May 2013 Total Debt £'000	30th April 2013 Total Debt £'000	Movement since April 2012 £'000	April 2012 £'000
Dartford, Gravesham Swanley	3,427	3,375	424	3,003
Maidstone/Malling	3,093	3,034	-66	3,159
SW Kent	3,289	3,146	216	3,073
Ashford/Shepway	2,828	2,806	107	2,721
Canterbury/Swale	2,902	2,816	575	2,327
Thanet/Dover	3,361	3,318	-326	3,688
Total	**18,901**	**18,495**	**930**	**17,971**

Unsecured Overdue Debt Locality	28th May 2013 Total Debt £'000	30th April 2013 Total Debt £'000	Movement since April 2012 £'000	April 2012 £'000	April 2011 £'000	April 2010 £'000
Dartford, Gravesham Swanley	1,083	1,027	16	1,067	1,141	1,052
Maidstone/Malling	761	741	-36	796	787	697
SW Kent	969	1,046	-236	1,205	941	875
Ashford/Shepway	1,003	1,046	123	880	1,029	1,136
Canterbury/Swale	934	930	151	783	1,051	1,099
Thanet/Dover	1,139	1,114	26	1,113	1,316	1,409
Total	**5,889**	**5,905**	**44**	**5,845**	**6,264**	**6,267**

BAD DEBT PROVISION – CLIENT RELATED

27. The total bad debt provision that exists for client related debt at the end of 2012/13 was £3,976k. This is calculated by looking at the value of all of the debts under various debt categories, covering secured, unsecured and Health. It also takes into account the age of the debt.

28. The total provision includes £2,934k of specific provisions. This relates to individual named clients for which we believe there is a high risk of the debt not being paid. This is reviewed during the course of the year to see if any payments have been made.

29. The general provision is £1,042k. This covers all debts, secured, unsecured and Health. This provision is recalculated on a monthly basis, and any required changes are forecast within the revenue monitoring. The percentages for the main categories used in the general provision on the remaining outstanding invoices are shown in the table below:

Debt Provision %	Under 6 months	Over 6 months
	%	%
DEFERRED PAYMENT - SECURED	0%	2%
DEFERRED PAYMENT - UNSECURED	5%	60%
ESTATE	10%	20%
HEALTH - HOLDING	10%	20%
HEALTH DEBT – WEST KENT	10%	20%
INSTALMENTS	5%	40%
LEGAL CHARGE SEC 22	0%	2%
PARKED TERMINATED	100%	100%
REFERRED FOR WRITE OFF	100%	100%
REFERRED TO LEGAL	5%	60%
SOLICITORS UNDERTAKING	0%	5%
TERMINATED SERVICE	33%	75%
UNSECURED	5%	60%
UNSECURED - FORWARDED FOR LEGAL CHARGE	0%	10%

WRITE OFFS

30. The sum written off as at 14 June 2013 for Social Care through Client Billing is £17,060.52. The data is based on write offs input to the Receivables system in 2013/14 rather than the year they have been allocated to GL.

RECOMMENDATION

31. Members are asked to note the content of this report.

Andrea Hanson
Acting Team Leader (Debt Recovery)
0300 333 5314

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By:	Paul Carter, Leader and Cabinet Member for Business Strategy, Audit and Transformation David Cockburn, Corporate Director Business Strategy & Support
To:	Governance and Audit Committee – 24th July 2013
Subject:	**CORPORATE RISK REGISTER**
Classification:	Unrestricted

Summary:

Governance & Audit Committee receives the Corporate Risk Register every six months for assurance purposes. The register is presented to the Committee along with an overview of the changes since last presented and an outline of the ongoing process of monitoring and review.

FOR ASSURANCE

1. Introduction and background

1.1 The Corporate Risk Register is maintained by the Corporate Risk Team on behalf of Cabinet and the Corporate Management Team. The register is formally reviewed annually, but is a 'living document' and is reviewed and updated in-year to reflect any significant new risks or changes in risk exposure that may arise due to internal or external events; and to track progress against mitigating actions.

2. Corporate Risk Register

2.1 The Corporate Risk Register contains eleven risks. Changes since the register was last reported to Governance & Audit Committee in December 2012 are as follows:

2.2 A risk relating to 'Ash Dieback' disease has been added to the register (Risk CRR 15 in appendix 1). This relates to the potential spread of disease that could affect large numbers of ash trees in the county.

2.3 A risk relating to 'Localism' has now been removed from the Corporate Register, as the relevant mitigating actions were completed since the risk was highlighted in late 2011.

2.4 Of the eleven risks, there are three areas of risk currently rated as "high". These relate to safeguarding; management of social care demand; and potential implications of the Welfare Reform Act. The other eight risks are currently rated as "Medium".

2.5 Further details of these risks, including controls and mitigating actions, are contained in the register at appendix 1.

2.6 The Corporate Risk Team supports directorates to ensure that the Corporate Risk Register is underpinned by Divisional and Directorate Risk Registers, from which risks can be escalated in accordance with KCC's Risk Management Policy. Directorate Risk Registers are reviewed quarterly by Directorate Management Teams and are reported annually to Cabinet Committees in January.

3. Monitoring & Review

3.1 There is a particular focus on ensuring that key mitigating actions are identified and progress monitored. The risks within the Corporate Risk Register, their current risk level and progress against mitigating actions are reported quarterly to Cabinet via the Quarterly Performance Report. Insufficient progress against mitigating actions is referred to the Performance & Evaluation Board for review.

3.2 A more formal refresh of the Corporate Risk Register is conducted each autumn, taking into account comments from Corporate Directors and Cabinet Members, and is presented to Cabinet.

4. Risk Management Information System

4.1 The contents of the Corporate Risk Register have been entered onto a risk management database, which is being developed as a central repository of risk information, thus enabling risk and action owners to monitor and manage risks and actions and to make adjustments as they arise. Reports are being configured to facilitate easier analysis of risks and gain an improved picture of cumulative risk exposure.

5. Recommendations

5.1 The Governance and Audit Committee is asked to NOTE the assurance provided in relation to the development and maintenance of the Corporate Risk Register.

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KCC Corporate Risk Register

PRESENTED TO GOVERNANCE & AUDIT COMMITTEE

JULY 2013

Corporate Risk Register

Summary Risk Profile

Low = 1-6	Medium = 8-15	High =16-25

Risk No.**	Risk Title	Current Risk Rating	Target Risk Rating
CRR 1	Data and Information Management	12	9
CRR 2	Safeguarding	16	12
CRR 3	Economic Growth	12	12
CRR 4	Civil Contingencies and Resilience	12	9
CRR 5	Organisational Transformation	12	8
CRR 9	Health Reform	8	6
CRR 10	Management of Social Care Demand	25	16*
CRR 12	Welfare Reform Act	16	9
CRR 13	Delivery of Medium Term Financial Plan savings	12	2
CRR 14	Procurement	9	6
CRR 15	Ash Dieback	12	9

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*Interim position, as we clearly would wish to reduce this risk further. Early intervention and transformational initiatives are being pursued and the impact of them will need to be evaluated before exploration of further mitigating actions.

**Each risk is allocated a unique code, which is retained even if a risk is transferred off the Corporate Register. Therefore there will be some 'gaps' between risk IDs.

Risk ID	CRR1	Risk Title	Data and Information Management		
Source / Cause of risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council is reliant on vast amount of good, quality data and information to determine sound decisions and plans, conduct operations and deliver services. It is also required by the Data Protection Act to maintain confidentiality, integrity and proper use of the data. With the Government's 'Open' agenda, increased flexible working patterns of staff, and increased partnership working and use of multiple information repositories, controls on data management and security have become complex and important.	Poor decision making due to ineffective use of or insufficient availability of data and information sharing. Loss, misrepresentation or unauthorised disclosure of sensitive data. Malicious attacks and sabotage The corruption, misuse, misplacement, loss or theft of the data and information could disrupt the council's ability to function effectively and result in unwelcome adverse publicity or legal action.	Under performance. Breach of Data Protection Act leading to legal actions, fines, adverse publicity, and additional remedial and data protection costs. Significant interruption of vital services leading to failure to meet duties and to protect people, finances and assets Potential damage to KCC's reputation	On behalf of CMT: Director Governance & Law **Responsible Cabinet Member(s):** Corporate & Democratic Services	Likely (4) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Senior Information Risk Officer in place	Corporate Director Business Strategy & Support
Centralised resilience and transparency team in place.	Team Leader- Information Resilience & Transparency team
Caldicott Guardians in place in FSC and C&C Directorates (FSC Guardian has lead role for KCC), protecting confidentiality of service user information and enabling appropriate information sharing.	Corporate Director Families & Social Care
Coherent county wide strategy and protocols on sharing information between agencies. Kent & Medway Information Governance Programme Board's Information sharing agreement in place.	Integrated Youth Services Effective Practice & Performance Manager
ICT Strategy in place.	Director of ICT
Information Governance e-Learning package available via Kent Manager and to other staff on request	Corporate Director Human Resources

Action Title	**Action Owner**	**Planned Completion Date**
Implementation of revised SIRO action plan	Director Governance & Law	February 2014
Instigation of information asset register and identification of information asset owners	Records Manager	July 2013
Implementation of recommendations from Data Quality Audits	Relevant Heads of Services	July 2013 (review)
Monitor Information Security & Information Risk Management supporting procedures and processes to ensure realisation of benefits	Corporate Director Families & Social Care / Director of Governance & Law / Director of ICT	February 2014

Risk ID CRR2	Risk Title	Safeguarding

Source / Cause of risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
The Council must fulfil its statutory obligations to effectively safeguard vulnerable adults and children.	Insufficiently robust management grip, performance management or quality assurance Its ability to fulfil this obligation could be affected by the adequacy of its controls, management and operational practices or if demand for its services exceeded its capacity and capability. Insufficient rigor in maintaining threshold application/inconsistency Increase in referrals and service demand resulting in unmanageable caseloads/ workloads for social workers Decline in performance and effective service delivery leading to critical inspection findings and reputational damage	Serious impact on vulnerable people Serious impact on ability to recruit the quality of staff critical to service delivery. Serious operational and financial consequences Attract possible intervention from a national regulator for failure to discharge corporate and executive responsibilities Incident of serious harm or death of a vulnerable adult or child	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Specialist Children's Services Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Serious (4)

Control Title	Control Owner
Consistent scrutiny and performance monitoring through Divisional Management Team, District 'Deep Dives' and audit activity	Corporate Director Families & Social Care
Reduction in caseloads per social worker and robust caseload monitoring	Corporate Director Families & Social Care
Significant work undertaken to increase rigour and managerial grip in Duty and Initial Assessment Teams	Corporate Director Families & Social Care
Central Duty Service & Central Referral Unit now in place to ensure increase in consistency and threshold application	Corporate Director Families & Social Care
FSC management team monitors social work vacancies and agrees strategies for urgent situations	Corporate Director Families & Social Care
Active strategy in place to attract and recruit social workers through a variety of routes with particular emphasis on experienced social workers. Detailed programme of training	Corporate Director Families & Social Care
CMT, FSC Directorate Management Team and the Cabinet Member for Adult Social Care & Public Health and Specialist Children's Services receive quarterly safeguarding performance reports.	Corporate Director Families & Social Care
Programme of internal and external audits for adult safeguarding case files with regards to FSC and Kent & Medway Partnership Trust (KMPT) in place. Peer reviews of safeguarding arrangements conducted by Essex County Council.	Corporate Director Families & Social Care
Performance management of safeguarding is part of the Improvement Plan in place between KCC (FSC directorate) and KMPT.	Director of Learning Disability & Mental Health
FSC Strategic Adults Safeguarding Board provides a strategic countywide overview of adult safeguarding within FSC and monitors progress towards the FSC Strategic Adult Safeguarding action plan	Corporate Director Families & Social Care
Safeguarding Vulnerable Adults (SGVA) coordinators work closely with Contracting colleagues where there are safeguarding concerns in the	Corporate Director Families & Social Care

independent sector using ‘Quality in care’ framework	
Regular monitoring of FSC safeguarding action plan by the FSC Strategic Adults Safeguarding Board. Ongoing monitoring of KMPT safeguarding action plan	Director of Strategic Commissioning
SGVA Co-ordinator meetings take place on a monthly basis. These meetings are an opportunity to share best practice and raise ongoing issues. The work plan for the group continues to be monitored	Director of Strategic Commissioning
Exercise to map levels of safeguarding training completed by staff in the independent sector conducted. Providers signposted to where they can access information about safeguarding training	Director of Strategic Commissioning
New, fit-for-purpose Specialist Children’s Services structure introduced.	Director of Specialist Children’s Services
Practice improvement Programme in place to strengthen practice across Children and Families Team	Director of Specialist Children’s Services
Long-term vision for Children’s Services in KCC established	Corporate Director Families & Social Care

Action Title	**Action Owner**	**Planned Completion Date**
Continued work to strengthen delivery of early intervention/prevention services. Services being commissioned to phased timetable according to Commissioning and Procurement Plan Supplier Framework.	Director of Strategic Commissioning	October 2013 (review)
Ongoing development of further strategies and campaigns to support recruitment so that we attract and retain high calibre social workers and managers. Use of competent agency social workers and managers on temporary basis to fill vacancies	Corporate Director of Families & Social Care / Corporate Director of Human Resources	July 2013 - regular reviews as part of Improvement Plan
A structured mechanism for feeding back lessons learnt from assessment, regulation and inspection needs to be implemented	Director of Strategic Commissioning / Director of Specialist Children’s Services	September 2013 (review)
Review of Kent Safeguarding and Children in Care Improvement Plan in light of findings from recent peer review and establishment and implementation of key actions, including: • Strengthening of Kent Safeguarding Children Board Arrangements • Practice Improvement Programme (Phase 2) focusing on best practice, recording and supervision	Director of Specialist Children’s Services	October 2013 (review)October 2013 (review)

Risk ID	CRR3	Risk Title	Economic Growth		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council carries significant responsibility for encouraging and enabling growth in the County's economy. Our aim to 'grow the economy' is becoming increasingly challenging in the current economic climate.	Prolonged adverse, uneven or worse than anticipated economic situation If the current economic climate continues or worsens or other regions re-stimulate their economies more quickly than Kent, then the Council's ability to deliver its plans for economic growth will be constrained. Community Infrastructure Levy (CIL) payments, Section 106 contributions and other growth levers do not cover the cost of infrastructure	Stalled/low economic and jobs growth The Council finds it increasingly difficult to fund KCC services across Kent and deal with the impact of growth on communities. Kent becomes a less viable place for inward investment and business Without growth the county residents will have less disposable income, face increased levels of unemployment and deprivation which could lead to heightened social and community tensions Reduced income, business exodus, unplanned increase in costs, and demand for Council services beyond capacity to deliver Our ability to deliver an enabling infrastructure becomes constrained	Corporate Director Business Strategy & Support and Head of Paid Service (Corporate Director Enterprise & Environment) **Responsible Cabinet Member(s):** Economic Development	Likely (4) **Target Residual Likelihood** Likely (4)	Significant (3) **Target Residual Impact** Significant (3)

Control Title	Control Owner
KCC's 20 year transport delivery plan, *Growth without Gridlock* sets out the key transport drivers for change which will help to facilitate and stimulate economic growth in the County. Implementation plan in place and regularly monitored.	Director Planning & Environment
Key infrastructure is identified and planned for as part of District Local Plans and Infrastructure Delivery Plans.	Director Planning & Environment
Planning & Environment and Economic & Spatial Development teams working with each individual District on composition of infrastructure plans including priorities for the CIL and Section 106 contributions, from which gaps can be ascertained	Director Economic & Spatial Development / Director of Planning & Environment
Dedicated Economic & Spatial Development (commissioning) team and Regeneration Projects delivery team in place to lead on this agenda.	Director of Economic & Spatial Development
Delivery of £5m Regional Growth Fund to improve rail journey times to East Kent and boost job opportunities	Director of Planning & Environment

Delivery of £35m Expansion East Kent loan scheme to growth businesses in East Kent, with the aim of creating 5,000 jobs and attracting £320m of private sector investment.	Director of Economic & Spatial Development
£20m Regional Growth funding secured for Thames Gateway Innovation, Growth and Enterprise (TIGER) programme to provide direct financial support to businesses in North Kent and Thurrock with the potential for growth with the aim of creating 3,400 jobs (new and safeguarded) and attracting a further £400m in private sector investment (subject to Member approval)	Director of Economic & Spatial Development
Kent Forum Housing Strategy refreshed	Strategic Housing Advisor
"Grow For It" East Kent launched showcasing East Kent for inward investors.	Director of Economic & Spatial Development
"Incubator" Programme in place to support the provision of incubator and start up workspace in key locations.	Director of Economic & Spatial Development
Economic & Spatial Devt SMT review of "critical "programmes/projects at SMT meetings and review of KPIs to ensure continued appropriateness and relevance	Director Economic & Spatial Development
Continued business engagement via Business Advisory Board (BAB) and sector conversations	Director Economic & Spatial Development
Contract awarded for Kent & Medway Broadband Programme as part of Broadband Delivery UK (BDUK) initiative	Economic Development Manager

Action Title **NB: The actions in place to mitigate the risk aim to contain the level of risk at its current level, as the current level of risk would be likely to increase otherwise.**	**Action Owner**	**Planned Completion Date**
Use of capital and revenue allocations to develop and pump prime transport schemes in Growth without Gridlock.	Director Planning & Environment	March 2014 (review)
'High Growth' Kent initiative supporting high growth business in Kent	Head of Business Engagement & Economic Development.	December 2014
Ensure effective governance arrangements in place for the South East Local Enterprise Partnership Local Transport Body, to enable prioritisation of transport infrastructure	Director of Planning & Environment	July 2013
Working with Network Rail, ensure delivery of phase 1 journey time improvement scheme to East Kent	Director of Planning & Environment	July 2013

Risk ID CRR4	Risk Title Civil Contingencies and Resilience				
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council, along with other Category 1 Responders in the County have a legal duty to establish and deliver containment actions and contingency plans to reduce the likelihood, and impact, of high impact incidents and emergencies and severe / extreme weather conditions.	Failure to deliver suitable planning measures, respond to and manage these events when they occur. Their ability to effectively manage incidents and maintain critical services could be undermined if they are unprepared or have ineffective emergency and business continuity plans and associated activities.	Potential increased loss of life if response is not effective. Serious threat to delivery of critical services. Increased financial cost in terms of damage control and insurance costs. Adverse effect on local businesses and the Kent economy. Possible public unrest and significant reputational damage Legal actions and intervention for failure to fulfill KCC's obligations under the Civil Contingencies Act or other associated legislation.	Corporate Director Customer & Communities **Responsible Cabinet Member(s):** Community Services	Possible (3) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Legally required multi-agency Kent Resilience Forum in place, with work driven by risk and impact based on Kent's Community Risk Register. Key roles of group include: • Intelligence gathering and forecasting; • Regular training exercises and tests; • Task & Finish groups addressing key issues. • Plan writing • Capability building	Head of Community Safety & Emergency Planning
Critical functions identified across KCC as a basis for effective Business Continuity Management (BCM).	Head of Community Safety & Emergency Planning
Management of financial impact to include Bellwin scheme	Finance Strategy Manager
Maintenance & delivery of emergency procedures, plans and capabilities in place to respond to a broad range of challenges.	Head of Community Safety & Emergency Planning
System in place for ongoing monitoring of severe weather events (SWIMS)	Programmes & Partnerships Manager, Sustainability & Climate Change
Implementation of Kent's Adaptation Action Plan 2011-2013	Programmes & Partnerships Manager, Sustainability & Climate Change
Local multi-agency flood response plans in place.	Head of Community Safety & Emergency Planning
Winter Resilience Planning Group & action plan in place.	Head of Community Safety & Emergency Planning

ICT resilience improvements made to underlying data storage, data centre capability and network resilience. Funds approved for further work to improve services that utilise Microsoft SharePoint such as KNet and Kent.gov in line with Customer Services strategy.	Director of Information & Communication Technology
Business Impact Analysis built into the annual business planning process for future management from within each service	Emergency Planning Manager
Upgraded Corporate email service in place, providing increased level of resilience	Director of Information & Communication Technology

Action Title	**Action Owner**	**Planned Completion Date**
Implementation of 7 recommendations contained in the 2012/13 Business Continuity and Resilience Planning Audit	Emergency Planning Manager	October 2013
Continue to conduct regular exercises and rehearsals of plans – test two plans per directorate, where there would be significant impact on welfare or business reputation.	Emergency Planning Manager (coordination role)	October 2013
Finalisation of Business Continuity Management Plan for the Contact Centre to improve overall resilience.	Emergency Planning Manager / Operations Manager Contact Point	November 2013
Implementation of Improvement Plan 2013/14 relating to ICT Disaster Recovery & Business Continuity arrangements	Director of Information & Communication Technology / Emergency Planning Manager	September 2013
New digital telephone service to be introduced with added resiliency	Director of Information & Communication Technology	July 2013
Upgrading / enhancement to Automated call distribution system,	Director of Information & Communication Technology	September 2013
Implementation of Customer Relationship Management System and services that utilise MS Dynamics, including training provision to ensure KCC has a sustainable support capability for these services	Director of Information & Communication Technology	TBC
Implementation of Content Management System and services that utilise MS SharePoint (e.g. Kent.gov and KNet) and related software, including training provision to ensure KCC has a sustainable support capability for these services	Director of Information & Communication Technology	December 2013

Risk ID	CRR5	Risk Title	Organisational Transformation		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Council is undergoing rapid change in order to deliver *Bold Steps for Kent*. A programme of major structural, operational and cultural transformation is underway. Staff reductions are being made because of budget pressures. The move towards more strategic commissioning and other changes to ways of working requires new skill sets and the changing environment for local government requires new behaviours from all staff. A "one council" approach to workforce planning is essential to ensure we have the right numbers of suitably skilled staff in the right places. The combination of losing experienced staff, recruiting new staff, and ensuring existing staff have the right skills and behaviours is a major challenge.	Failure to manage the transformation process through adequate planning and resources Lack of appropriate skills and capacity to move to alternative delivery process Loss of excellent staff due to scale of changes Failure to deliver expected outcomes and benefits, and critical services may be impeded.	Failure to deliver key services, to maintain quality of services provided and to achieve financial savings required, leading to reputational damage and further pressure on services.	On behalf of CMT: Corporate Director Human Resources **Responsible Cabinet Member(s):** Corporate & Democratic Services	Possible (3)* **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Serious (4)

*While the overall risk has diminished for the organisation over the last year because of controls put in place and that many significant restructures have been completed successfully, there is still risk relating to the adult transformation programme and change in ways of working. The score for this area in isolation would remain at 4.

Control Title	Control Owner
An Organisational Development Plan is in place, outlining KCC's key people activities from 2011-2015, including clear objectives and planned outcomes, Progress is monitored by HR divisional management team, Directorate Management Teams, Corporate Management Team and Corporate Board. Outcomes being monitored and challenged by Performance & Evaluation Board as appropriate.	Corporate Director (Human Resources)
Delivery of *Change to keep Succeeding* restructuring programme. Timelines are published on KNet together with information on current and completed restructures.	Corporate Director (Human Resources)
Directorate action plans in place and reviewed annually	Organisational Devt Group leads
Staff care policy in place	Corporate Director (Human Resources)
Centralised training budget and training plan in place delivered by Organisational Development Training Group, including leadership and Kent Manager programmes	Corporate Director (Human Resources)
Professional staffing resources dedicated to more complex issues	Corporate Director (Human Resources)
Governance & Internal Control mechanisms refreshed to align with new organisational arrangements (i.e. KCC constitution and Code of Corporate Governance.	Director (Governance & Law)
Programme Office in place providing independent assurance of significant transformational programme and project management and their interdependencies across KCC to ensure appropriate benefits realisation. Reports to Corporate Board and Budget Programme Board as appropriate.	Head of Policy & Strategic Relationships
"Doing things Differently" internal communications campaign in place	Director of Communications & Engagement

Action Title	Action Owner	Planned Completion Date
Delivery of the Organisational Development & People Plan through action plans for each of the five areas of people management activity - Resourcing; Development; Performance; Transformation; Retention Directorate action plans to be reviewed annually	Corporate Management Team	December 2013 (review)
Further work to develop Succession Planning across the organisation via Organisational Development Groups	Corporate Director (Human Resources)	December 2013 (review)
Revision of KCC employee Terms & Conditions to reflect the changing shape of the workforce	Corporate Director (Human Resources)	30 September 2013

Risk ID CRR9	Risk Title Health Reform				
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Health & Social Care Act came into effect in April 2013 giving KCC, as an upper tier Authority, a new duty to take appropriate steps to improve and protect the health of the local population. The Act also required KCC to undertake a number of specific steps, which has led to the establishment of a Health and Wellbeing Board and sub-architecture; the publication of a joint Health & Wellbeing Strategy produced by KCC in partnership with Clinical Commissioning Groups; development of an enhanced Joint Strategic Needs Assessment (JSNA) under the auspices of the Health and Wellbeing Board; the commissioning of Kent Health Watch as a consumer champion for healthcare in Kent; and the adoption of statutory responsibility for some of the key locality-led elements of the new national Public Health System. In effect, this means that KCC is now an integral part of this new national system providing locality-led leadership and oversight of public health (PH) in the County together with responsibilities for delivering some key public health services. To support these new responsibilities the Authority has a ring-fenced budget and the majority of NHS staff currently working in public health in Kent have transferred to KCC.	Focus on delivery deteriorates during the post transition “settlement period” Failure to maximise opportunities presented for health & social care integration, and ensure changes achieve maximum impact.	Ineffective health and social care provision for citizens of Kent. Business Continuity issues due to delay in the development and management of essential new complex partnerships between KCC and the NHS. The possibility of unsafe practices in health protection as a consequence of responsibilities for this domain of Public Health being split between Public Health England, NHS England, Clinical Commissioning Groups and the Local Authority.	Corporate Director Families & Social Care Corporate Director Business Strategy & Support (Director of Public Health) **Responsible Cabinet Member(s):** Education & Health Reform Adult Social Care & Public Health	Unlikely (2) **Target Residual Likelihood** Unlikely (2)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
KCC has a designated Cabinet Portfolio Holder for Health Reform, who has assumed a central role at strategic level	Leader of the Council
Virtual Health & Wellbeing Board Steering Group established	Director of Public Health
Quality and Safety Assurance Framework established and documented for Public Health	Director of Public Health
Health & Wellbeing Board and CCG-level Health & wellbeing Board sub-committees established	Cabinet Member for Education & Health Reform
Health Protection Committee established with Directors of Public Health in Kent & Medway as Chairs	Director of Public Health

Joint Commissioning Board Strategy & Commissioning plans established with Clinical Commissioning Groups	Director of Strategic Commissioning	
Action Title	**Action Owner**	**Planned Completion Date**
Alignment of the Families & Social Care Transformation Programmes with Commissioning plans of Clinical Commissioning Groups (CCGs)	Director of Strategic Commissioning Director of Older People & Physical Disability	October 2013 (review)
Establish a public health commissioning board	Director of Public Health	July 2013
Engage and work with the Kent CCGs on both adult and children's health services	Corporate Director Families & Social Care	October 2013 (review)
Commissioning intentions: integration of CCG business planning cycle to Health & Wellbeing Board and sub-architecture's agenda planning	Head of Policy & Strategic Relationships	October 2013 (review)
Ensure agreed protocols are in place for the communication of Public Health issues and emergencies, including dissemination of information and advice	Director of Communications & Engagement / Director of Public Health	TBC

Risk ID CRR10	Risk Title Management of Social Care Demand				
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
KCC recognises that to effectively operate its services within budget limitations and affect preventative early intervention it must examine its operations and services and how they match customer expectations and demand.	Council fails to determine, manage and resource to future demand and its services are then unable to meet future customer requirements. Fulfilling statutory obligations and duties becomes increasingly difficult against rising expectations	Customer dissatisfaction with service provision. Increased and unplanned pressure on resources Decline in performance. Legal challenge resulting in adverse reputational damage to the Council.	Corporate Director Families & Social Care **Responsible Cabinet Member(s):** Adult Social Care & Public Health Specialist Children's Services	Very Likely (5) **Target Residual Likelihood** Likely (4)	Major (5) **Target Residual Impact** Serious (4)

Control Title	**Control Owner**
Analysis and refreshing of forecasts to maintain the level of understanding which feeds into the relevant areas of the MTFP and the business planning process	Director of Strategic Commissioning
Monitoring, vigilance and challenge regarding the placement of children and Adults in Kent.	Director of Strategic Commissioning
Lobby the Treasury to investigate Ordinary Residence matters in more detail as a national funding issue.	Corporate Director Finance & Procurement
Pack developed to guide operational staff in their response to Ordinary Residence requests by other Local Authorities	Director of Learning Disability & Mental Health
Legal Services are engaged where required to support KCC when challenging other Authorities to accept Ordinary Residence re responsibilities	Director of Learning Disability & Mental Health
Plans developed to manage the number of children in care and ongoing discussions with high placing LA's placing children in care in Kent.	Director of Specialist Children's Services
Adult Social Care Transformation Programme Blueprint and Preparation Plan agreed by Cabinet, including six identified transformation themes.	Corporate Director Families & Social Care
Benefits of enablement support to existing and potential service users, their families and key partners being marketed. Work is linked into the Adult Transformation Programme and ensure there is sufficient capacity in the market to provide Enablement Services	Director of Strategic Commissioning
Continue to support early intervention and support services that make a difference in terms of delaying the need for more expensive social care support and helps improve quality of life	Director of Specialist Children's Services
Joint commissioning of services with health, in particular for people with dementia, long term conditions and for carers.	Director of Strategic Commissioning Director of Older People & Physical Disability
Utilise opportunities to make contracting and procurement controls drive value for money further	Director of Strategic Commissioning
Develop better understanding of demand profile and respond as early as possible to have the greatest impact on demand management	Director of Strategic Commissioning
Continued drive to maximise the use of Telecare as part of the mainstream community care services	Director of Older People & Physical Disability

	and Director of Learning Disability and Mental Health
Maintain the use of appropriate tools to obtain value for money in relation to the commissioning of expensive specialist residential accommodation	Director of Strategic Commissioning
Adult Social Care Transformation Programme – outputs from planning phase delivered	Director of Strategic Commissioning

Action Title	**Action Owner**	**Planned Completion Date**
Ensure the appropriate number of children in care	Director of Specialist Children's Services	October 2013 (review)
Ensure that children in care receive appropriate levels of support and services through effective multi-agency intervention that is responsive to their needs.	Director of Specialist Children's Services	October 2013 (review)
Re-focusing of early intervention and prevention services (both direct and commissioned)- is specifically designed to address this pressure and to ensure improved outcomes for children and young people	Director of Strategic Commissioning	October 2013 (review)
Jointly develop risk stratification tools with Health to better target interventions.	Director of Older People and Physical Disability Services	October 2013
Public Health & Social Care to ensure effective provision of information, advice and guidance and to promote self management to reduce dependency	Director of Public Health / Director of Older People and Physical Disability Services	September 2013 (review)
Continue to support investment in preventative services through voluntary sector partners	Director of Strategic Commissioning	October 2013 (review)

Risk ID 12	Risk Title	Welfare Reform Act			
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
The Welfare Reform Act 2012 puts into law many of the proposals set out in the 2010 white paper *Universal Credit: Welfare that Works*. It aims to bring about a major overhaul of the benefits system and the transference of significant centralised responsibilities to local authorities. The Act presents KCC with two major challenges: firstly to determine and implement the schemes and operations required to effectively comply with the Act on time and to specification; and secondly to be prepared to manage the uncertain affects and outcomes that the changes may have on Kent and its people.	Failure to develop and deliver effective schemes and operations within statutory deadlines, specification and budget. The financial models and budgets and funding sources underpinning the new schemes prove to be inadequate and allocation of payments and grants has to become prioritised against more challenging criteria. The impact of the reforms in regions outside of Kent could trigger the influx of significant numbers of 'Welfare' dependent peoples to Kent. Failure to plan appropriately to deal with potential consequences.	Failure to meet statutory obligations has major legal, financial and reputational repercussions for KCC. Ineffective delivery of schemes and operations to customers compounds demand on KCC and partner services. An increase in households falling below poverty thresholds with vulnerable people becoming exposed to greater risk. New schemes and operations are undermined by a negative impact on Kent's demographic profile. Insufficient employment to meet additional demand and to fill the publics' 'funding gap' places additional challenges for adult and child safeguarding and demand for social support. Increasing deprivation leads to increase in social unrest and criminal activity.	Corporate Director Customer & Communities Corporate Director Families & Social Care (Corporate Director of Finance & Procurement) **Responsible Cabinet Member(s):** Finance & Procurement Community Services Adult Social Care & Public Health	Likely (4) **Target Residual Likelihood** Possible (3)	Serious (4) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Welfare Reform sub-group of Kent Chief Execs Group in place	
Regular reporting to Corporate Board	Head of Policy & Strategic Relationships
Key work streams and outputs to prepare for changes identified and detailed in a Welfare Reform Implementation, Response and Monitoring Plan	Head of Policy & Strategic Relationships / Head of Business Intelligence
Initial analysis of impacts conducted by KCC Business Intelligence & external partners to give an indication of scale of implications of benefits cap	Research & Evaluation Manager, Business Intelligence / Head of Policy & Strategic Relationships
Initial analysis of potential impact of Personal Independence Payment (PIP) conducted	Research & Evaluation Manager, Business Intelligence
Briefings given to Managers and staff in Families & Social Care directorate to raise awareness of potential implications of changes	Policy Manager, Business Strategy & Support
Housing Strategy team working with South East Housing associations to consider likely impact on sector	Strategic Housing Advisor
Mechanism developed to track benefit cap migration into Kent	Research & Evaluation Manager, Business Intelligence

Arrangements for Council Tax Benefit Localisation scheme in place	Finance Strategy Manager	
Social Fund Project Board established to oversee implementation of the pilot scheme & service model approved by the Board.	Cabinet Member Customer & Communities	
Welfare Reform report produced to improve understanding of key issues	Research & Evaluation Manager	
Working with Local Authorities in Essex and Suffolk to share intelligence	Research & Evaluation Manager	
Comprehensive method of tracking inward migration in place	Research & Evaluation Manager	
Action Title	**Action Owner**	**Planned Completion Date**
Universal Credit – Continue work with DWP to establish local delivery aspects in terms of face-to-face support	Head of Service – Customer Relationship Unit	August 2013 (review)
Close monitoring of demand and performance of Kent Support and Assistance Service (localised social fund) to inform planning of 2014/15 programme	Director of Service Improvement	July 2013 (review)
Protocol is being developed by London Councils with KCC input with the aim of ensuring the most vulnerable families are not placed outside of London as a result of benefit changes	Head of Business Intelligence	August 2013
Six monthly in-depth Research & Evaluation updates will be delivered with interim bulletins if significant changes are identified earlier.	Head of Business Intelligence	December 2013

Risk ID	CRR13	Risk Title	Delivery of Savings

Source / Cause of Risk	Risk Event	Consequence	Risk Owner	Current Likelihood	Current Impact
The ongoing difficult economic climate has led to significant reductions in funding to the public sector and Local Government in particular. KCC has already made significant cost savings and still needs to make ongoing year-on-year savings in order to "balance its books."	The required savings from key programmes or efficiency initiatives are not achieved.	Urgent alternative savings need to be found which could have an adverse impact on service users and/or residents of Kent. Reputational damage to the council.	On behalf of CMT: Corporate Director Finance & Procurement **Responsible Cabinet Member(s):** Finance & Procurement	Possible (3) **Target Residual Likelihood** Very unlikely (1)	Serious (4) **Target Residual Impact** Moderate (2)

Control Title	Control Owner
Robust budgeting and financial planning in place via Medium Term Financial Planning (MTFP) process	Corporate Director (Finance & Procurement)
Process for monitoring delivery of savings is in place, including a Budget Programme Board to scrutinise progress.	Corporate Director (Finance & Procurement)
Robust monitoring and forecasting of arrangements in place relating to the KCC budget as a whole	Corporate Director (Finance & Procurement)
Programme Office in place providing independent assurance of significant transformational programme and project management across KCC to ensure appropriate benefits realisation, including delivery of savings. Reports to Corporate Board and Budget Programme Board as appropriate.	Head of Policy & Strategic Relationships
Procedures for appropriate consultation in place (including Equality Impact Assessments) when decisions relating to changes in services are being considered	Head of Consultation & Engagement
Arrangements for localisation of council tax agreed with District Councils (cross reference to Risk 12 Welfare Reform)	Finance Strategy Manager

Action Title	Action Owner	Planned Completion Date
Ensure existing controls and mechanisms remain robust during the coming years	Corporate Director Finance & Procurement	December 2013 (review)
Delivery of Social Care Transformation Programme	Corporate Director Families & Social Care	2014/15
Additional monitoring of council tax collections	Head of Financial Strategy	December 2013 (review)

<table>
<tr><td colspan="7">Risk ID CRR14 Risk Title Procurement</td></tr>
<tr>
<td>Source / Cause of Risk
As part of the transformation programme set out in Bold Steps for Kent, the Authority is moving towards more strategic commissioning arrangements. This will put even greater emphasis on the importance of robust procurement and commissioning arrangements and contract management.</td>
<td>Risk Event
Commercial or contractual failure of suppliers

A procurement process is challenged because it is considered to be discriminatory or to have failed to adhere to procedures set out in procurement law.

Potential conflict between best price and Bold Steps for Kent objectives

Non-delivery of procurement savings</td>
<td>Consequence
Providers fail to deliver expected benefits. Service users / residents of Kent suffer – potential legal, financial and reputational implications.

Procurement processes may have to be halted / restarted, which has service and financial implications</td>
<td>Risk Owner
On behalf of CMT:
Corporate Director Finance & Procurement

Responsible Cabinet Member(s):

Finance & Procurement</td>
<td colspan="2">Current Likelihood
Possible (3)

Target Residual Likelihood
Unlikely (2)</td>
<td>Current Impact
Significant (3)

Target Residual Impact
Significant (3)</td>
</tr>
<tr><td colspan="4">Control Title</td><td colspan="3">Control Owner</td></tr>
<tr><td colspan="4">KCC Procurement Strategy sets out the strategic approach to procurement across the Authority</td><td colspan="3">Head of Procurement</td></tr>
<tr><td colspan="4">Spending the Council's Money – Code of Practice setting out how strategic approach to procurement is to be achieved at operational level.</td><td colspan="3">Head of Procurement</td></tr>
<tr><td colspan="4">Procurement Board in place, establishing clear agreed relationships, support, information flow, governance structures and accountability between different levels of commissioning and procurement.</td><td colspan="3">Head of Procurement</td></tr>
<tr><td colspan="4">iProcurement rolled out, as an online way of making and managing requisitions and purchases</td><td colspan="3">Head of Procurement</td></tr>
<tr><td colspan="4">Procurement training for KCC managers, as part of the Kent Manager standard, in place</td><td colspan="3">Head of Procurement</td></tr>
<tr><td colspan="4">Category Management approach established</td><td colspan="3">Head of Procurement</td></tr>
<tr><td colspan="4">Procedures for appropriate consultation in place (including Equality Impact Assessments) where procurement and commissioning decisions are being considered</td><td colspan="3">Head of Consultation & Engagement</td></tr>
<tr><td colspan="4">Procurement and Legal Services joint protocol with Legal Services in place to clarify the respective responsibilities of these two functions and service managers</td><td colspan="3">Head of Procurement/Director of Governance & Law</td></tr>
<tr><td colspan="2">Action Title</td><td colspan="3">Action Owner</td><td colspan="2">Planned Completion Date</td></tr>
<tr><td colspan="2">Completion of Category Management strategies</td><td colspan="3">Head of Procurement</td><td colspan="2">December 2013 (review)</td></tr>
</table>

Risk ID	CRR15	Risk Title	Ash Dieback		
Source / Cause of Risk	**Risk Event**	**Consequence**	**Risk Owner**	**Current Likelihood**	**Current Impact**
Outbreak of Ash Dieback (Chalara Fraxinea) within the county.	There is a risk that significant numbers of ash trees may be affected by this disease thereby having a significant impact of the landscape of Kent. (Research suggests that as many as 95% of ash trees may become affected). Such events would have a dramatic effect on budgetary planning, in managing the impact of identifying and removing diseased trees, and re-prioritising of resources.	Large areas of woodland and individual trees may become infected, leading to difficulties identifying, treating and removing trees from both public and private sites, including KCC premises. In addition such work would bring with it health and safety issues as well as environmental issues, This would be at a significant unplanned cost.	Corporate Director Customer and Communities Corporate Director Enterprise and Environment. **Responsible Cabinet Member(s):** Community Services Transport & Environment	Likely (4) **Target Residual Likelihood** Possible (3)	Significant (3) **Target Residual Impact** Significant (3)

Control Title	**Control Owner**
Direct link set up between KCC Emergency Planning, Defra, Food & Environment Research Agency (Fera), Forestry Commission & local partners in Kent, to ensure a consistent approach in dealing with the outbreak (November 2012).	Emergency Planning Manager/Director of Planning and Environment.
Interim bio-security precautions established and ratified by Martin Ward, UK Chief Plant Health Officer (November 2012).	Emergency Planning Manager/Director of Planning and Environment.
Local Strategic Co-ordinating Group (SCG) established and led by KCC Emergency Planning/Planning and Environment.	Emergency Planning Manager/Director of Planning and Environment.
Multi-agency gold strategy developed to manage the response in Kent, Agreed by all partners & published November 2012.	Emergency Planning Manager/Director of Planning and Environment.
Defra interim Chalara Control Plan published December 2012.	Emergency Planning Manager/Director of Planning and Environment.
National strategy being published	Emergency Planning Manager
Ash Dieback Summit held in Kent on 18th December 2012 (featuring various national and international experts and other interested parties.	Emergency Planning Manager/Director of Planning and Environment.
Local multi-agency Action plan in place to implement key actions in the strategy and the Defra Chalara Control Plan	Emergency Planning Manager/Director of Planning and Environment.
System for ongoing monitoring of outbreaks now in place	Emergency Planning Manager
Forestry Commission Chalara public information notices distributed to KCC Teams and a range of partners for installation at public open spaces across Kent.	Emergency Planning Manager

Trading Standards produces and publicises guidance around "Rogue Traders" profiteering from the outbreak	Emergency Planning Manager	
Action Title	**Action Owner**	**Planned Completion Date**
Further communications and briefings to all Senior staff in KCC during the growing season	Emergency Planning Manager/Director of Planning and Environment.	July 2013 (review)
Communications strategy to be developed	Emergency Planning Manager	September 2013
Result of findings of survey being conducted by Country Parks to understand the implications to the county of tree numbers.	Emergency Planning Manager	September 2013
Baseline asset and tree safety audit being carried out for Ash trees on public land	Emergency Planning Manager	September 2013
Assess potential scale for monitoring and felling of dead and dying Ash trees adjacent to transport routes (inc footways, bridleways, road and transport networks).	Emergency Planning Manager	September 2013
Develop on-line Ash dieback forum for sharing best practice.	Emergency Planning Manager	September 2013
Development of a tree strategy for Kent and Medway.	Emergency Planning Manager	April 2014

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By:	John Simmonds, Cabinet Member for Finance & Procurement Andy Wood, Corporate Director of Finance & Procurement
To:	Governance and Audit Committee – 24th July 2013
Subject:	**SCHOOLS AUDIT ANNUAL REPORT**
Classification:	Unrestricted

Summary: The Annual Report summarises the output of the Schools Financial Services audit and compliance programme during 2012-2013 and provides an annual opinion on the adequacy and effectiveness of controls at schools. This report only covers Kent maintained schools, as Academies and Free Schools are not part of the County Council.

FOR ASSURANCE

1. Introduction

The DfE requires that the Chief Finance Officer, (i.e. the Corporate Director of Finance and Procurement), signs an annual assurance statement, confirming that there is a system of audit for schools which gives adequate assurance over their standards of financial management and the regularity and propriety of their spending.

2. Previous Approach

Previously the Corporate Director was able to place reliance on the accreditation of the Financial Management Standard in schools (FMSiS). The FMSiS was externally assessed by Schools Financial Services (SFS) and was valid for three years. This along with a one day compliance visit to schools, returns from schools, training and contract work undertaken by Schools Financial Services (SFS) enabled the Corporate Director to sign such a statement.

3. Revised Approach

In November 2010 the Secretary of State announced the decision to end FMSiS and replace it with the Schools Financial Value Standard (SFVS). This is an annual self evaluation, comprising of 23 criteria where Governors need to demonstrate how they meet each criterion. An action plan must be put in place for any areas where the criteria is not met but there is no external assessment. The SFVS forms part of the school statutory requirements and must be submitted to the local authority by the

31st March annually. Only those schools that never attained FMSiS were expected to submit a return by the 31st March 2012. For all other maintained schools, the first run through was March 2013.

The assurance statement recognises the new SFVS requirement does not give sufficient assurance and in order to meet the requirements of the DfE a five year rolling programme of more extensive compliance visits in schools, building on the existing programme already undertaken has been developed. The visits are determined on a risk basis, every school having at least one visit every five years, with schools presenting a higher financial risk being visited more frequently. This has been agreed with Internal Audit as a suitable approach in line with audit methodology and would meet the definition of an “adequate system of audit”.

4. Current assurance on schools financial management

The following work streams demonstrate how Schools Financial Services provide assurance on schools financial management:

Review of financial information – SFS analyse schools Revenue and Capital three year budget plans, half year and nine monthly monitoring along with the year end returns that feed in to the corporate accounts.

Training – There is a comprehensive finance training programme for Head teachers, Bursars and Governors and Finance Groups for Bursars are held three times annually. All of these are well attended and we have seen a growing demand for bespoke training for individual governing bodies.

Provision of financial support – As part of our traded services, 29% of schools purchase a weekly or monthly contract where experienced SFS staff are working with the school and 92% of schools purchase a core finance package offering support in all aspects of budgeting, financial controls and procedures.

Review of SFVS – The annual self assessment is sent to SFS as part of schools’ statutory requirements.

Compliance Programme – Schools Financial Services was part of the BSS Finance and Procurement restructure, effective from April 2012. As a result many staff were new to SFS and inexperienced in working with schools. An intensive training programme was put in place which enabled all tasks except the setting up of the new comprehensive compliance programme to be completed.

It was planned that SFS would undertake 50 compliance visits during the 2012-13 financial year. The new programme involves a two day visit in a school compared to the previous one day visit and was piloted by SFS managers in November 2012. However, it was considered that additional work was required on the content and tests applied. Due to the remaining time available Deloitte & Touche Public Sector Internal Audit Ltd were engaged in December to complete 50 audit visits to schools before the 31st March 2013.

All aspects of the Deloitte’s programme have been overseen by managers in SFS. The criteria and risk analysis used to determine the schools to be visited was agreed by Internal Audit and all findings have been checked to ensure any recommendations are in line with the Kent Scheme for Financing Schools. In total Deloitte's visited 47 schools. Due to circumstances in the other three schools, the visits have been postponed with agreement at director level. These three schools will be amongst the first visited in the 2013-14 tranche by SFS.

It should be noted that Deloitte's visited the schools which were considered to be of the highest financial risk and therefore the findings and numbers of recommendations would not reflect the overall position of all the schools had the sample been done using random criteria.

A comprehensive draft report, including an assurance level has been sent to each school by Deloitte's, asking for their response to the findings within 10 working days. A final report will then be issued to the school. SFS will undertake the follow up process to ensure that the schools have completed the management action as detailed.

A summary of Deloitte's findings as the 26th June is detailed in Appendix 1.

There are a high proportion of medium risk recommendations in Governance and Leadership section. SFS are working with Governor Services to ensure clear guidance is sent to schools and governors and areas identified are included in future training.

The most common areas for improvement within schools are the ordering of goods and services, HMRC guidance for payments to self employed contractors and password protection. The ordering of goods equates to the high number of recommendations under the procurement section. At the recent Finance Groups attended by bursars and business managers these areas along with other issues highlighted have been discussed. Improved guidance in all these areas will be sent to schools and will be included in future training programmes.

In addition, Internal Audit will be undertaking themed audits in schools and the focus of the first one is on procurement to reflect these findings.

Opinion

It is considered that the comprehensive programme of audits undertaken in 2012-13 plus the statutory information analysed, including the schools' own self assessments of the SFVS provides suitable assurance for the SFVS Statement to be signed.

Recommendations

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

Yvonne King
Schools Financial Services Manager
01622 772275

APPENDIX 1 SCHOOLS AUDIT ANNUAL REPORT

Deloitte & Touché Public Sector Internal Audit Ltd visited 47 schools in total.

37 Primary schools and 10 secondary schools

The 4 outstanding draft reports should be with the schools in early July.

Summary of Audit Opinion on schools

Number of Schools	Overall Audit Opinion				
	High	Substantial	Adequate	Limited	None
43	0	5	20	18	0

Sections	Priority of Recommendations		
	High	Medium	Low
Governance & Leadership	2	153	15
SIP & Ousted Inspections	0	25	1
Financial Planning Budgetary Control & Monitoring	1	39	7
Payroll	1	63	13
Procurement	43	78	20
Bank Account	6	27	10
Income	0	41	4
Assets	5	78	3
School Residential Journeys	0	45	0
School Fund Accounting	1	12	3
Petty Cash Account	1	33	4

Data Protection	0	64	2

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By:	Neeta Major, Head of Internal Audit
To:	Governance and Audit Committee – 24 July 2013
Subject:	**INTERNAL AUDIT ANNUAL REPORT**
Classification:	Unrestricted

Summary: The Annual Report summarises the output of the Internal Audit annual plan, provides the opinion on the Council's system of internal control and provides commentary on the performance of the Internal Audit Section.

FOR ASSURANCE

Introduction and background

1. CIPFA's[1] Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) requires that the Head of Internal Audit must provide a written report to those charged with governance timed to support the Annual Governance Statement. This report must:

- include an opinion on the overall adequacy and effectiveness of the organisation's control environment;
- disclose any qualifications to that opinion, together with the reasons for the qualification;
- present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and targets;
- comment on compliance with the Code of Practice and communicate the results of the Internal Audit quality assurance programme.

Head of Audit Annual Report

2. The Annual Report (attached at Appendix 1) meets the requirements of the CIPFA code set out above. In addition, this report supports the Annual Governance Statement by providing an opinion in relation to the internal control environment, risk management processes and corporate governance of the Council.

3. For the year 2012/13 the opinion is:

   Substantial in relation to corporate governance arrangements i.e. the arrangements are generally well designed and applied consistently but there are some weaknesses that require management attention.

   Adequate in relation to the system of internal control and risk management processes i.e. the system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.

[1] Chartered Institute of Public Finance and Accountancy

Key themes arising out of the work of Internal Audit is detailed within the Annual Report.

Audit Opinions

4. In July 2012 the Governance & Audit Committee approved changes in the audit opinions and recommendation priorities for the 2012/13 audit programme. As part of the review of Internal Audit's work for 2012-13, we have reviewed these opinions and recommendation priorities and do not propose to change them for the 2013/2014 programme. This will ensure that the Committee and Corporate Management Team can receive assurance as to the direction of travel in relation to sound internal controls, during times of significant change. This will also ensure a consistent basis for the provision of the overall annual Internal Audit opinion. However the opinions and priorities will be annually reviewed to ensure this remains appropriate.

Follow up process

5. No changes are proposed to the follow up process which is detailed in the report.

Key Developments

6. Each year Internal Audit carries out a self assessment against the relevant Internal Audit standards (CIPFA Code of Practice for Internal Audit in Local Government) and compliance is reported within the annual report. From 1 April 2013 there will be a new set of standards to replace the CIPFA Code. They are known as Public Sector Internal Audit Standards and have been issued through a joint collaboration of different public sector standards setters (including CIPFA and the IIA).

7. Grant Thornton has produced a useful summary of the purpose, objectives and changes in the standards. This is attached at Appendix 2. We will include an assessment of conformance against these standards from 13/14 within the annual report.

Recommendations

8. Members are asked to:

- Note for assurance the internal audit annual report for 2012/2013 ***(Appendix 1)***
- Note the change in relevant standards for Internal Audit ***(Appendix 2).***

Neeta Major
Head of Internal Audit
Ext: 4664

Appendix 1

Kent County Council

Internal Audit Annual Report 2012/13

Contents

I. Introduction

Purpose of this report

Internal Audit is an independent, objective assurance and consulting function designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by using a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

The CiPFA Code of Practice for Internal Audit in Local Government in the UK requires the Head of Internal Audit to provide an annual written report to those charged with governance (i.e. the Governance & Audit Committee) presenting an opinion on internal controls, risk management processes and governance arrangements.

This report summarises the work that the Council's Internal Audit and anti-fraud service has undertaken during 2012/2013. It also highlights the key issues with respect to internal control, risk and governance arising from that work and presents my opinion based on the work performed during the year.

The report builds on the matters reported to the Governance & Audit Committee throughout the year.

Overview of work done

The original Internal Audit Plan for 2012/13 included a total of 72 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, changes have been agreed to the Plan during the year. A number of projects have been deleted from the Plan as a result of changing priorities or if other assurances are available to the Council. In addition, other audits have been added where an emerging risk has been highlighted requiring independent assurance. Details of the changes to the Audit Plan have been reported to the Governance and Audit Committee throughout the year. The total number of projects undertaken in 2012/13 was 88, including compliance audits and advisory work undertaken. At the time of preparing this report most substantive work had been completed and the reporting position was as follows:

- 82 – final report/assurance work completed
- 6 – draft reports issued or in the process of being finalised

Internal Audit also undertook 49 investigations relating to allegations of fraud or irregularities by staff or third parties. We have used the outcomes from both our audit and fraud work to inform our audit plan for 2013-2014 which was approved at the April Governance & Audit Committee.

Objectives

The majority of reviews internal audit undertake are designed to provide assurance to management on the operation of the Council's internal control environment. At the end of an audit we provide recommendations and agree actions with management that will, if implemented, further enhance the environment of the controls in practice.

Other work undertaken includes the provision of 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 plan is 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.

II. Scope, Responsibilities and Assurance

Scope

In accordance with the CIPFA Code of Audit Practice, the scope of internal audit encompasses all of the Council's operations, resources and services including where they are provided by other organisations on the Council's behalf.

For 2012/2013 the dynamic external environment of the public sector and the internal responses to these changes meant that the plan continued to include a focus on ensuring that the foundations of sound internal control were in place throughout the period of change. In addition the plan included a number of risk based audits following an assessment of control risk based on:

- Interviews with Members and officers across the Council
- A review of the corporate risk register, business plans, policies and procedures, committee papers and the budget book
- Outcomes from previous audit reviews and fraud investigations

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 independently 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 providing assurance on the controls in place. 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 that could result in fraud or error, Internal Audit procedures alone do not guarantee that fraud will be detected; this should be a function of the controls put in place by management. Accordingly, our examinations as Internal Auditors should not be relied upon solely to disclose fraud, misappropriation 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 Corporate 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.

Limitations to the scope of our work

There have been no limitations to the scope of our work.

Limitations on the assurance that Internal Audit can provide

It should be noted that the assurance expressed within this report can never be absolute i.e. we cannot guarantee that all aspects of control are adequate. Internal Audit provides “reasonable assurance” to the Section 151 Officer, the senior management team, and the Governance & Audit Committee, based on the work performed.

Assurance (Opinion)

The Head of Internal Audit is required to provide an opinion on the overall adequacy and effectiveness of the Council’s:

- Corporate Governance
- Risk Management
- Internal Control.

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

Basis of our assessment

The opinion on the adequacy of the system of internal control in 2012-2013 is based upon the result of Internal Audit reviews undertaken and completed during the period in accordance with the plan approved by the Governance and Audit Committee. While based predominantly on 2012-13, the results of the preceding two financial years audit activity have also been considered, to the extent that these systems operated during 2012-2013 and subject to completion of any actions agreed in individual audit reports. This approach provides Members with a broader view of the effectiveness of the overall control framework by enabling the opinion to be formed over a greater number of audit reviews. This also avoids the risk of the annual opinion being unduly skewed.

We have obtained sufficient, reliable and relevant evidence to support the recommendations that we have made.

Opinion for 2012/2013

Based on the work that internal audit has performed, and taking into account the individual strengths and weaknesses identified, **adequate** assurance can be provided on the adequacy of the system of internal control and risk management arrangements at KCC in 2012/2013. Audit testing has confirmed that the overall system of control is sufficiently sound to manage key risks.

In addition **Substantial** assurance can be provided on the governance arrangements at KCC over 2012/2013 as authority wide governance arrangements are operating effectively. Where specific improvements in governance arrangements are required, these are being addressed and are detailed in the Annual Governance Statement.

Where improvements to controls or compliance are required, we are satisfied that appropriate actions have been agreed by the relevant managers and we are monitoring to ensure implementation.

Key issues and implications for the Annual Governance Statement

In making its Annual Governance Statement, the Council considers the Head of Internal Audit's opinion as well as other sources of assurance e.g. External Audit, peer reviews, Government inspections and management assurances. For 2012/2013, although the audit and irregularity work completed by Internal Audit identified a number of improvements to be made, these do not constitute systemic failures of internal control across KCC. Our key conclusions across the three opinion areas are as follows:

Corporate Governance

The Council's approved and adopted Code of Corporate Governance is consistent with the principles of good governance set out in the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government Framework' (2012). The Code is kept under review by the Council's Monitoring Officer and amended as necessary. The outcome of the review and any resultant changes are reported to the Governance & Audit Committee on an annual basis. During 2012/2013 the Council enhanced its governance arrangements through development and implementation of a Cabinet Committee structure supported by a joint Member/Officer Corporate Board.

Internal Audit undertakes an annual review of the Council's Corporate Governance arrangements and this involves assessment on a cyclical basis of whether the Council meets key governance principles. The results over the previous three years have been as follows:

Year	Scope of review	Assurance
10/11	How Members and officers work together to achieve a common purpose	Substantial
11/12	Standards of conduct and behaviour Developing the capacity and capability of Members	Substantial
12/13	Review of revised governance arrangements, including roles and responsibilities.	Substantial

Risk Management

In 2012/13 we reviewed Council-wide risk management arrangements through interviews with officers and by reviewing relevant documentation including risk management guidance, risk registers, risk reports and minutes of meetings.

The audit confirmed that there have been a number of significant improvements in risk management arrangements since the 2011/12 audit, with a positive direction of travel reflected by an improved assurance level and an increase in the organisation's risk maturity. The Risk Management Team have developed central processes and in particular there are now policies and guidance in place that are accessible to all staff and Member training has been undertaken. In addition there is clear leadership for risk management with performance measures in place and roles and responsibilities defined; as a result risk management is reported and monitored at all levels of the Council. Areas identified for development now relate predominantly to organisational compliance with, and consistent application of, central processes to embed risk management into day to day activity. Recommendations have been made accordingly.

Internal Controls

Though our work identified instances where controls were not operating as intended, 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. Set out below are key themes from our audits where actions are required to secure improvements to the control environment:

Control lapses due to organisation changes

Over the period from 2011/12 to 2014/15, KCC will have been required to make significant budget savings. This has posed the Council with the challenge of how to bridge the significant gap between reduced revenue and continuing funding pressures. For this reason KCC has had to radically rethink its approach to the design and delivery of services and also has had to adapt its structure so that it is leaner, more focussed on key priorities and yet delivering a structure that supports an organisational culture centred on being a single organisation. Several audits have confirmed that whilst this restructuring process is occurring, there have been lapses in controls. In certain audits, although there was evidence of corporate polices being implemented, it was noted that at directorate level some of these controls were not being implemented. Several actions are already being undertaken to make improvements e.g. improving financial regulations to clearly specify a delegated authority matrix for a number of key activities, improving risk management arrangements at a divisional level, improved training to directorate managers to ensure they have the appropriate skills to undertake all aspects of their roles, improving sample checks to ensure basic financial and operational controls are in place and operating.

Controls at remote sites

There have been a number of irregularities at sites that are remote from the centre, including educational establishments, activity centres and social care establishments. This is due to the devolved or removed accountability arrangements that exist when services are operating remotely from core activities and the difficulties in exerting sufficient monitoring controls in these circumstances. Relevant corporate directors have accepted the need to improve the control environment in relation to remote sites and have instigated more central controls and checks to address these issues. This has also been supported by Internal Audit providing fraud and controls awareness training both centrally to managers and to staff at remote sites.

Governance arrangements over companies and trading vehicles

As a result of audits and investigations undertaken in the year, it has been noted that there is a lack of understanding across the Council of the governance requirements in relation to companies and other entities in which KCC has an interest. In one instance, this has resulted in a KCC company being used inappropriately and there have been concerns over the adequacy of governance arrangements at others. This risk has now been prioritised and actions are being taken to review all such entities and monitor, regulate or dissolve as appropriate. Going forward Internal Audit will undertake compliance reviews of such entities on a cyclical basis as well as providing assurance on the adequacy and effectiveness of KCC's shareholder controls.

Summary of Internal Audit work undertaken

Core work

Opinions	No. of audits	% of audits
High / compliant	7	8%
Substantial	23	26%
Adequate	26	30%
Limited	14	15%
No	1	1%
Opinion not applicable	13	15%
Assurance opinion pending completion of work	4	5%
Total	**88**	**100%**

Limited/No opinions were given to:

- *Supporting People – procurement review*
- *Longfield Academy – post build evaluation*
- *Professional and Highways Consultancy – contract compliance*
- *Leaving Care – contract compliance*
- *Developer Contributions*
- *Personal Budgets*
- *Payments Process*
- *Case file audit*
- *Special Educational Needs (SEN)*
- *Foster Care Payments*
- *5 establishments**

Appendix A sets out the summaries of all reports issued since the last report to Governance & Audit Committee in April 2012. Appendix B lists all internal audits and the overall assurance rating for them.

*A total of 21 establishment audits were undertaken during 2012-13. A summary of assurances and key themes can be found at page 27.

Follow ups

As detailed previously, at the end of each audit we make recommendations to improve the control environment. We follow up on all high and medium priority recommendations as they fall due and report progress to Governance and Audit Committee. The results of the follow ups are detailed in the table below.

	High	**Medium**
Number of recommendations falling due in 12/13	70	160
Recommendations with revised implementation dates or in process of being followed up	40	59
Number of recommendations implemented	30	96
Number of recommendations outstanding at time of report	0	5

At the time of writing this report 5 medium priority recommendations were outstanding, 79 recommendations had been rescheduled and will be followed up in 2013-2014 and 20 recommendations are in the process of being followed up. Of the 79 rescheduled, 30 are high priority; in all cases we consider the revisions to be reasonable and will follow up at the revised due date.

Anti Fraud work

In common with most large organisations the Council is subject to fraud. During 2012-13, 49 irregularities were reported to Internal Audit. The Council adopts a zero tolerance approach to irregularities. Accordingly, all reported irregularities were or are still in the process of being investigated.

To date, 3 of these have been reported to the police, another 5 resulted in disciplinary action and, of these, 5 staff were dismissed for gross misconduct. Internal Audit has continued to proactively address fraud during 2012-13. This proactive work included raising the level of fraud awareness within the Council, assessing fraud risks and promoting the Council's anti-fraud strategy. This approach has led to an increase in the level of reported suspicions of irregularity to Internal Audit compared with previous years. This does not however indicate an increased level of fraud, but rather an increased level of awareness which is very encouraging.

An analysis of the types of irregularities reported is shown below:

Type of Fraud	Number
Procurement	10
Fraudulent insurance claims	0
Social care fraud	4
Economic and third sector support fraud	3
Debt fraud	0
Pension fraud	1
Investment fraud	0
Payroll and contract fulfilment fraud	3
Employee expense fraud	2
Abuse of position for financial gain	14
Manipulation of financial or non financial data	2
Disabled parking concessions	6
Recruitment	0
Other	4
Total	**49**

(Categorised in accordance with the Audit Commission's Fraud and Corruption Survey 2011/12).

The Council is required to take part in the Audit Commission's National Fraud Initiative which is a bi-annual exercise. The National Fraud Initiative (NFI) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. This includes police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies. The subsequent 'matches' are made available to the Council to review and consider investigating. It is important to note that a match does not automatically indicate that fraud is taking place and there is usually a reasonable explanation for the match. All high priority matches have been reviewed and the remaining reports remain available for further analysis. No potential frauds have been identified so far.

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.

With the move from the Audit Commission to Grant Thornton, there has been a revised external audit approach which the Council is still learning about. In 2013/2014 we plan to create a revised protocol between Internal and External Audit in accordance with the new firm's procedures.

III. Internal Audit Performance

Internal audit performance

Members of the Governance and Audit Committee receive regular reports on Internal Audit's performance against a range of indicators throughout the year. Internal Audit's performance against those targets for the year ended 31 March 2013 is shown below:

Performance Indicator	Target	Actual
Effectiveness		
% of recommendations accepted	98%	99%
Efficiency		
% of plan delivered	90%	94%
% of available time spent on direct audit work	85%	87%
% of draft reports completed within 10 days of finishing fieldwork (Note 1)	90%	86%
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 (Note 2)	90%	84%

During 2012/13 Internal Audit has continued to carry several vacancies as well as secondments and the section is still not at full establishment. Despite these changes the section had delivered 94% of the plan by 31st March 2013 enabling the overall audit opinion to be given. At the end of June 2013 the Plan is 99% complete.

Note 1

Performance compared to 11/12 (50%) improved through focusing more effort on this target, identifying where problems may be occurring and implementing corrective action wherever appropriate. This focus will be maintained in 2013/14 to ensure the positive direction of travel continues.

Note 2

The issue of several limited and adequate assurance opinions in recent months has impacted on this metric. This is unavoidable for a service which by its very nature relies on feedback from the teams it has to review and challenge. No performance concerns have been highlighted from the client feedback responses and scores improved within the year.

Compliance with the Code of Practice for Internal Audit

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 and is mandatory.

The assessment confirmed compliance with the Code of Practice in most material respects. Certain exceptions were highlighted and these are summarised as follows:

- Where services are provided in partnership there is no formal mechanism for identifying how assurances will be sought or for ensuring rights of access.

- The Head of Audit has not sought to establish a dialogue with all regulatory and inspection agencies that interact with the Council. In practice the responsibility for liaison of this nature fell to the Audit Commission in their capacity as Local Government lead regulator. With the abolishment of the Audit Commission, we will await further guidance in relation to this issue.

- Although the Head of Internal Audit has defined a standard for audit documentation and working papers there are no independent quality reviews undertaken to monitor adherence with this standard. However managers review processes on individual assignments and reviews of audit reports by the Head of Internal Audit are designed to ensure a good quality output is achieved. During 2013-14 Internal Audit will be introducing a Quality Assurance Improvement Programme in order to address this.

Other areas where there were compliance gaps have been addressed through changes to the Internal Audit Manual or the Internal Audit Charter.

Compliance with the CIPFA statement on the Role of the Head of Internal Audit in public service organisations

We have reviewed the Council's compliance against the CIPFA statement on the Role of the Head of Internal Audit in Local Government (2010). As reported to the Governance and Audit Committee in April 2012, the Council's arrangements comply in all significant respects with the principles set out in the CIPFA statement. Remaining gaps include:

- Responsibilities for drawing up and reviewing key corporate strategies, statements and policies do not currently include the Head of Internal Audit
- The basis on which the Head of Internal Audit can place reliance on assurances from others has not been documented or agreed
- The Head of Internal Audit's responsibilities relating to partners including joint ventures and outsourced and shared services have not been documented or agreed.

We do not consider these areas of non compliance to be significant and will monitor in line with the new Public Sector Internal Audit Standards which are the standards that will be applicable from 1 April 2013.

Public Sector Internal Audit Standards

From 1 April 2013, the Relevant Internal Audit Standard Setters have adopted a common set of Public Sector Internal Audit Standards (PSIAS). The purpose of these standards is to supersede the previous CIPFA Code of Practice and to:

- Define the nature of internal auditing in the UK public sector
- Set basic principles for internal audit
- Establish a framework for providing internal audit which add value
- Establish a basis for the evaluation of internal audit performance

From 2013/2014, we will assess and report on conformance against these standards as part of the annual reporting process. In order to prepare ourselves for the new standards we have already undertaken an evaluation against the standards which has highlighted certain gaps. These gaps are being considered and where possible have already been addressed through changes to the Internal Audit Manual or the Internal Audit Charter

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 has been amended to ensure compliance with the CIPFA Code of Practice for Internal Audit in Local Government as well as the Public Sector Internal Audit Standards. A revised version can be found at Appendix C.

Changes made were minor and related to the following clarifications:

- The Purpose of Internal Audit and Professional Standards have been updated to reflect the new Public Sector Internal Audit Standards.
- Internal Auditors will not assess operations for which they were previously responsible, within the last year.
- Internal Audit work also includes consultancy to directorates, including project assurance and controls advisory requests.
- The use of third parties to deliver aspects of the plan.
- Provision of assurance to third parties.

2012/13 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 challenge and support of the Governance and Audit Committee.

Appendix A - Summary of individual internal audit projects issued since April 2013

Risk Management

Scope

The overall objective of the audit was to provide assurance that the Council has adequate, robust risk management arrangements in place to support delivery of objectives and the Annual Governance Statement.

Overall Assessment – Adequate

The Corporate Risk Team, headed by the Corporate Risk Manager, has day to day responsibility for developing and coordinating risk management across the Council, providing advice, support and training. Individual Directorates and Divisions are responsible for their own risk registers and the implementation of required actions.

The 'Adequate' assurance is based on sample testing of risk registers to ensure that controls are in place and operating as intended. There have been a number of improvements in risk management arrangements since the 2011/12 audit with a positive direction of travel reflected by an improved assurance level and an increase in the organisation's risk maturity. The Risk Management Team have developed central processes and there is clear leadership for risk management with performance measures in place and roles and responsibilities defined.

We have made six recommendations to further improve controls, one of which is high priority. These include defining a process for escalating and approving risks that sit outside of the Council's risk appetite, ensuring all relevant information required in risk registers is complete and clearly evidencing the implementation of mitigating actions.

Business Continuity and Resilience Planning Audit

Scope

The overall objective of the audit was to provide assurance over the development of Business Continuity Plans (BCP) which is led and facilitated by the Business Continuity team, part of the Emergency Planning team at Kent County Council.

Overall Assessment – Adequate

The Civil Contingencies Act (2004) requires that Local Authorities make provision for the continuity of critical services. To this end, Local Authorities are required to have robust business continuity arrangements in place. The lack of such arrangements could mean the Council is unable to provide services for an extended period resulting in significant costs to re-establish operations, as well as reputational damage.

The 'Adequate' assurance is based on sample testing and interviews with key officers, which confirmed that the system of control is sufficiently sound to manage key risks. There is a dedicated business continuity team within Emergency Planning and a programme plan to ensure plans for the service units will have been developed and tested by the end of October 2013. A Business Impact Analysis (BIA) has also been completed by each service unit and details from the BIA have been uploaded into the relevant system. In addition, a Cross Directory Group (CDG) meets regularly to provide input to developing the template and building the BCPs.

We have made seven recommendations to further improve controls, none of which are high priority, which include the need to review and update the business continuity strategy at least annually and to establish a consistent and strategic approach for the development of the plan supported by risk analysis. In addition all Directorate and Corporate level BCPs should be developed, signed off and then communicated and tested periodically.

Performance Management

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the Council's Performance Management Framework, including data quality processes.

Overall Assessment – Substantial

The Council's Performance Management framework includes the setting of Key Performance Indicators (KPIs) and accompanying targets and floor standards, a data quality policy and a reporting framework. This audit focused on directorate dashboards presented to Cabinet Committees.

The 'Substantial' assurance is based on sample testing which showed KPI calculations were accurate and that issues identified with data quality did not materially impact the information reported. There was evidence of appropriate consultation and links to business planning processes.

We have made 5 recommendations to further improve controls, none of which are high priority. These include ensuring alignment between corporate and directorate dashboards, scrutinising the rationale for targets, and including commentary in dashboards where performance information could potentially be misinterpreted.

Information Governance

Scope

The overall objective of the audit was to provide assurance on the adequacy and effectiveness of the key controls being applied regarding the Information Governance (IG) environment.

Overall Assessment – Adequate

The IG Framework determines how to collect and store data and specifies how data is to be used and when it can be shared. It also provides guidance to the Council and individuals to ensure personal information is processed legally, securely, efficiently and effectively. This audit evaluated the current control framework in relation to both the Department of Information Governance Toolkit and IT Governance best practice (ISO:38500).

The 'Adequate' assurance is based on sample testing which demonstrated that the system of control is sufficiently sound to manage key risks although there remain a number of areas for further development and improvement.

The current IG Framework of defined, documented policies, standards and procedures is in place but is yet to become embedded. The framework will be rolled out during 2013/14 and includes IG awareness training and improved monitoring arrangements.

We have made six recommendations to further improve controls, none of which are high priority. These include: developing IG success criteria and key performance indicators, developing an annual IG survey, implementing an IG training and awareness regime, considering a 'one stop shop' to capture all Security and IG incidents; and establishing the status of actions that are currently shown as 'unknown'.

Procurement

Scope

The overall objective of the audit was to provide assurance on the development and implementation of planned actions detailed in the Finance & Procurement (F&P) Annual Plan 2012/13.

Overall Assessment – Adequate

Given the requirement to deliver significant savings, the F&P Annual Plan contains a number of key priorities to deliver the overall objective of leading and continuously improving the procurement strategy, in line with overall Council objectives.

The 'Adequate' assurance is based on evidence that in certain areas, development and progress against the agreed priorities had been met. Standard base documents and processes are now in place and key electronic tools to support procurement have been implemented along with the Kent Portal. Basic iProcurement improvements have been made but it is as yet to be rolled out to the whole of the Council and capabilities and solutions for e-Invoicing and i-Supplier have been assessed but not yet implemented. Training has been developed, however it had only been delivered to a small number of users. It could not be confirmed whether savings are on target at this stage as the target is cumulative for the three years and included some savings over four years. Outstanding priorities have been included within the 2013/14 unit operating plan for action.

We have made four recommendations, none of which are high priority. These include; authorising procurement plans with approval to proceed, reviewing and updating the contract register, standardising the referencing of documents kept electronically and ensuring the overall savings target details year on year targets with savings apportioned accurately.

Partnerships

Scope

The overall objective was to give assurance on the governance and management of strategic/significant partnerships. However, as this information was not available centrally, the 2012-13 audit work comprised information gathering and handover to the business to take forward agreed actions.

Overall Assessment – N/a Advisory only

Information was requested from all Directorates and the results shared with the Strategic Relations team. Actions were then agreed for implementation to develop robust governance of partnerships and an appropriate management framework.

Agreed actions included the production of a partnerships policy and the establishment and maintenance of a database of strategic partnerships. The Strategic Relations team plan to implement a rolling programme of 'light touch' reviews of each of the strategic partnerships the scope of which will include whether meetings are continuing, what agenda items are being covered and who attends, etc, with a view to ensuring partnerships generally remain focussed and provide value for money.

A follow-up to this work will be undertaken in 2013-2014.

Learning and Development

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the strategy, delivery and quality of training activities, in order to meet corporate objectives.

Overall Assessment – Adequate

The KCC Training Plan for 2012-13 was developed to set out clearly the workforce development priorities for KCC to deliver Bold Steps. An Organisational Development Workforce Development (ODWD) Team, has been formed to plan, commission and evaluate the effectiveness of all training and development, along with a new centralised Learning & Development team.

The 'Adequate' assurance is based on evidence that identified certain areas where controls were operating adequately and effectively. Processes are outlined within the KCC Training Plan and Training Strategy and Directorate training plans are being authorised by Senior Management. It is recognised that the newly established ODWD Team was still within transition at the time of the audit and therefore many of the expected processes were not in place for 2012-13. We were informed that these are being put in place for 2013-14.

We have made four recommendations, one of which is high priority. These include; business objectives to be stipulated in all cases on Directorate training plans and explanations as evidence of why training is being requested as mandatory/core.

Workforce Planning

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the Resourcing and Retention drivers in the Organisational Development and People Plan (ODPP).

Overall Assessment – Adequate

The ODPP 2011-2015 is a people strategy to help ensure that the workforce can deliver Bold Steps for Kent. The key aims of the Resourcing and Retention drivers are: to ensure that employees with the right skills can be deployed around the organisation, that managers identify and succession plan for key posts and that the Council retains skilled staff but is able to recruit high quality external candidates where necessary.

The 'Adequate' assurance is based on evidence that tools to help managers with issues such as workforce and succession planning are being developed and on areas of good practice identified across the organisation in, for example, talent management and reward.

We have made 8 recommendations, none of which are high priority. These included identifying measurable outcomes, ensuring clear timeframes for delivery, embedding succession planning across the organisation and developing analytical work on responses to exit surveys.

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General Ledger

Scope

The overall objective of the audit was to provide assurance on the integrity of the Oracle General Ledger and the accuracy of transactions recorded in the system

Overall Assessment – Substantial

Oracle continues to be developed as the single financial system for use throughout the Council and is an integral part of the move to a central finance function. The information in Oracle forms the basis for the production of monitoring reports comparing budgets with actual spend throughout the year and the end of year financial statements.

The 'Substantial' assurance is based on sample testing that confirmed the key controls in these areas are operating as intended. For the sample tested there are effective controls in place to ensure that access to Oracle is limited to authorised staff; journals had an adequate explanation and an identified originator; bank and suspense account reconciliations were being carried out within the required timescales.

We have made 4 recommendations to further improve controls, one of which is high priority. These include confirming Budget Manager approval for journal transfers, documented independent reviews of reconciliations and procedures to ensure that persons responsible for reconciliations are not authorised signatories on the same account.

Corporate Purchase Cards

Scope

The overall objective of the audit was to provide assurance that expenditure on Corporate Purchase Cards is appropriate, authorised and supported by relevant documentation.

Overall Assessment – Adequate

KCC currently has 500+ active procurement cards. Procurement card spend is approximately £1m per annum and accounts for less than 1% of overall expenditure on goods and services. The eSolutions system is used for recording, reconciling and authorising purchase card expenditure and operational procedures require that only the designated card holder should use the card.

The 'Adequate' assurance is based on sample testing of key controls which established that the majority of transactions are reviewed and reconciled by the cardholder and separately approved within the required timescales. No inappropriate spend was identified in the sample of transactions tested, although it is noted that this does not provide absolute assurance that all spend is appropriate.

We have made five recommendations, two of which are high priority, which include management review of supporting documentation, including provision of VAT receipts, enhancing descriptions on eSolutions and compliance with individual transaction limits.

Capital Planning and Monitoring

Scope

The main objective of this audit was to provide assurance that there are adequate controls in place for Capital Bids and Projects, and that following entry onto the Medium Term Financial Plan, progress of Capital Projects is monitored and followed up.

Overall Assessment – Substantial

The value of the Capital Budget for the three years 2012/15 is £692.5m, as reported in the Budget Book.

The 'Substantial' assurance is based on sample testing which confirmed that the key controls are in place and operating as intended. New capital bids are submitted to the Project Advisory Group which considers bids in line with the Council's strategic objectives. Milestones and targets had been identified for each agreed bid and progress against targets is monitored. In addition, monthly capital monitoring meetings are held with representatives from directorates and a consolidated capital progress report is made to Cabinet each quarter.

Two recommendations have been made which will further improve controls, neither of which are high priority. These include maintaining and circulating formal records of the items discussed at the Project Advisory Group and Capital Away Day and retaining copies of the 'Approval to Plan' forms for all projects on the Medium Term Financial Plan.

Revenue Budget Monitoring

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the arrangements for revenue budget monitoring.

Overall Assessment – Adequate

The restructure of finance in 2012 changed the approach to revenue budget monitoring. Budget Managers are now expected to take ownership and monitor budgets proactively with support, guidance and training from Finance based on a banded risk profile calculated for each budget. This requires the Budget Manager to be provided with the right tools to undertake their role effectively and includes making use of Collaborative Planning (CP).

The 'Adequate' assurance is based on evidence that defined criteria were applied consistently to all budgets. Formal training has been provided on financial principles and the use of CP. Forecasts and reports to Cabinet are being produced in line with the published timetable.

We have made six recommendations, none of which are high priority. These include notifying Budget Managers of all changes to cash limits, recording evidence to support variance analysis and documenting changes to the reported statements.

Payment Process

Scope

The main objective of this audit was to provide assurance that there were controls in place regarding the Payments Process, including amendments to standing data, processing of payments and cheque processing. The audit also incorporated review of the iProcurement module.

Overall Assessment – Limited

Accounts Payable is an integrated module of the Oracle Financial Information System. Payments are input to Accounts Payable through either automated interfaces or manual invoice processing. The iProcurement Oracle module is an online automated purchase requisition management facility through which goods and services can be purchased via online catalogues and preferred suppliers. It provides for orders to be created, submitted and approved online.

The 'Limited' assurance is based on several issues that require prompt management attention including more independent verification of new supplier requests, improving controls around the authorisation of payments and seeking approval from Budget Managers before setting up new users on iProcurement.

We have made twenty one recommendations to improve on existing controls, nine of which are high priority. The high priority recommendations include enhancements to processes for authorised signatories, new supplier set-up, amendments to standing data, independent checks and access levels on iProcurement.

Treasury Management

Scope

The overall objective of the audit was to provide assurance that there are adequate and effective controls in place for the Council's Treasury Management processes such that activities are carried out in line with the treasury management framework and investment strategy.

Overall Assessment – High

The Treasury Management function manages the Council's cash flow and investments as well as its long term and short term debt management. Treasury management decisions should be taken in accordance with the CIPFA Code of Practice for Treasury Management in the Public Services. As part of this framework, Prudential Indicators are set to control and direct treasury operations. Treasury activity also needs to comply with relevant statute, guidance and accounting standards.

The 'High' assurance is based on interviews with key officers and sample testing which established that effective controls were in place to help ensure that Treasury Management processes are undertaken in compliance with the Treasury Management framework and investment strategy.

We have made one recommendation, which is not high priority. The recommendation is for improvements to be made to the timeliness of completion and review of treasury management reconciliations.

Pension Investments Income

Scope

The main objective of this audit was to provide assurance that there are controls in place to ensure pension investment income is being managed adequately and effectively, that pension income is correctly accounted for, fund performance is monitored and procedures are in place to produce the annual Pension Fund accounts in an accurate and timely manner.

Overall Assessment – Substantial

The Local Government Pension Scheme (LGPS) is a nationwide pension scheme for people working in local government or for other specified types of employers. With the exception of a small amount of internally managed cash, the investments are managed by external fund managers who provide monthly reports to the Council's Treasury and Investments team and private equity and infrastructure fund managers who report quarterly.

The 'Substantial assurance is based on interviews with key officers and inspection of relevant documents which established that controls were in place to manage risks adequately and effectively in relation to Pension Fund Investment processes.

We have made three recommendations to further improve controls, none of which are high priority. These include reviewing and updating the procedure notes for monthly reconciliations, ensuring that all investment journals are appropriately authorised and improving the timeliness of completion and review of investment fund reconciliations.

Pensions contributions

Scope

The main objective of this audit was to provide assurance that there are controls in place to ensure that contributions for pensions are being correctly deducted and paid over to the Pensions Fund.

Overall Assessment – High

The Local Government Pension Scheme (LGPS) is a nationwide pension scheme for people working in local government or for other specified types of employers. The Scheme is administered through regional pension funds, one of which is run by KCC for approximately 400 employers and 35,000 employees. Both employees and employers contribute to the LGPS. Employees' contributions are fixed while the Fund Actuary sets each employer's contribution rate as part of the actuarial valuation which takes place every three years.

The 'High' assurance is based on sample testing which demonstrated that in all the key areas, controls are in place and operating as intended. There were effective controls in place to ensure that contributions were being correctly deducted by KCC and paid over to the Pension Fund.

We have made one recommendation to further improve controls, which was not high priority. This related to the annual data input of the pension contribution bands being independently checked to confirm accuracy.

Social Care Client billing (excluding debt recovery)

Scope

The overall objective of this audit was to provide an assurance that there are sufficient processes and controls in place with regards to the accuracy and validity of charges to service users or their representative. This audit did not include a review of controls over collecting social care client debt.

Overall Assessment – Substantial (Draft)

SWIFT is the adult social care client database, which is used to calculate charges that clients are billed every four weeks for their care. The Council charges for the provision of residential and nursing home care and non-residential services. Client contributions are calculated according to the individual's capital and income.

The 'Substantial' assurance is based on sample testing which identified that key controls were in place and operating as intended. New clients are added to SWIFT promptly when care packages are set up and Financial Assessments are completed with the client's contribution and entered onto SWIFT on a timely basis. For the sample selected, clients were being charged correctly and income due for social care provision under existing contract conditions was billed in a timely manner, with the exception that initial billing may be delayed if an individual contract is required.

We have made two recommendations to further improve controls, neither of which are high priority. This includes ensuring that individual contracts are requested on a timely basis and developing a process to confirm that a check of the adjustments has been completed by the Senior Assessment Officers.

Schools Compliance

Scope

The overall purpose of this work was to establish whether reliance could be placed on visits to schools undertaken by Schools Financial Services as an 'adequate system of audit', required by the Schools Financial Value Standard.

Overall Assessment – N/a Advisory only

During 2012-2013 we worked with the Schools Financial Services (SFS) team in developing a work programme to deliver a robust system of audit. The work programme addresses key financial controls and details appropriate levels of testing. On a risk basis, SFS then selected a sample of 50 schools for audit using the agreed work programme.

Working in liaison with SFS has allowed us to place reliance on the work undertaken and provide assurance that in 2012-2013 there was an 'adequate system of audit' for the purposes of the Schools Financial Value Standard.

VAT

Scope

The overall objective of the audit was to provide assurance that there are adequate and effective systems and controls operating over the Council's VAT transactions.

Overall Assessment – Substantial

The Chief Accountant's Team has overall responsibility for ensuring that monthly VAT returns are submitted to HMRC which are accurate and timely. The key objectives of the system are to ensure that VAT returns are complete and accurate, the returns are made in a timely manner and reasonable care is taken to prevent error or fraud.

The 'Substantial' assurance is based on sample testing that showed in most areas controls are in place and operating as intended. There were effective controls in place to ensure returns made to HMRC are compiled using the correct figures from Oracle for Kent County Council, as well as Kent Fire and certain aspects of Kent Commercial Services. Checks are completed on high value invoices to determine if the correct VAT code is used and the monthly VAT return is amended where appropriate.

We have made ten recommendations to further improve controls, one of which is high priority. These include updating the Document Retention Schedule to reflect current law in relation to revenue invoices, ensuring all documentation processed has a correct VAT code and succession planning.

Regional Growth Fund – Expansion East Kent

Scope

The overall objective of the audit was to provide assurance on governance, decision making and outcomes in relation to grant funding for the Expansion East Kent Project.

Overall Assessment – High

Expansion East Kent is part of the Central Government's Regional Growth Fund initiative. The scheme was launched in April 2012 with a sum of £35million to be used to provide assistance through interest-free, repayable business finance. Funding provided will be based on submitted investment proposals that meet the scheme's criteria.

The 'High' assurance is based on the review establishing that governance arrangements for the project are in place and operating appropriately. Key controls for approval, authorisation, and monitoring of loans are in place and are sufficiently robust. Supporting procedures notes are in place to ensure that officers are able to progress applications correctly.

Two low priority recommendations were made to further improve processes, which include enhancements to feedback on informal conditions to the Investment Advisory Board and to written procedures.

S106 Developer Contributions

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are in place and operating effectively regarding the administration and management of S106 developer contributions.

Overall Assessment – Limited

Section 106 (S106) of the Town and Country Planning Act 1990 allows a local planning authority (LPA) to enter into a legally-binding agreement or planning obligation with a landowner or interested party in association with the granting of planning permission.

The 'Limited' assurance is based on a number of issues that require prompt management attention to help ensure more robust recording, monitoring and reporting, in particular development of central monitoring arrangements and reconciliation between the amounts recorded and reported would enhance current controls.

We have made nine recommendations to improve controls, five of which are high priority. These include the arrangements to monitor contributions centrally to enhance Directorate level monitoring, including relevant deliverable projects nearing deadline to spend and reviewing the likelihood of receiving agreed contributions on current S106 agreements.

Personal Budgets

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are operating over the governance and administration of Personal Budgets, to ensure that the scheme contributes effectively towards both the strategic objectives outlined in Bold Steps for Kent.

Overall Assessment - Limited

Personal budgets are a key part of the Government's wider personalisation agenda. Government objectives for personal budgets have been set out and focus on improving outcomes through individual choice and control. The Draft Care and Support Bill (July 2012) proposed statutory requirements. Local authorities were targeted to ensure 70% of relevant clients had a personal budget by April 2013.

The 'Limited' assurance is based on a number of issues that require immediate management attention to ensure appropriate controls are in place. Particular areas for attention are ensuring all relevant documentation is held on client files and is of appropriate quality, implementation of a point based system to calculate the cost of support based on need and integration of budget planning into support planning.

We made eight recommendations, five of which are high priority. These include raising awareness of support planning criteria, implementing a quality assurance programme targeted at support plans, ensuring support plans are authorised appropriately in line with the Actual Personal Budget (APB), integrating budget planning into the support plan and reviewing information provided on personalisation.

Strategic Commissioning

Scope

The main objective of the audit was to provide assurance that risks are being managed adequately and effectively in order to meet the Adult Social Care Transformation Programme (ASCTP) objectives. This report provides an update on the audit work completed on Strategic Commissioning and the ASCTP during 2012-2013.

Overall Assessment – N/a Advisory only

The ASCTP had a Transformation Programme Blueprint and Preparation Plan in place for the work due to be completed and met its deadlines in relation to compiling ‘understand’ reports and reporting to the Budget Programme Board and Transformation Board. Stakeholder consultation took place prior to the Plan being written and issued and a Board had been established to ensure continuous engagement.

At the time of the audit the Plan needed to be updated and to include more detail following the completion of the Understand phase. There was a need to ensure continuity for the future of the project which has subsequently been addressed. In addition issues were identified in relation to data quality and obtaining/analysing information.

Five advisory recommendations were made. These have since been superseded by diagnostic work undertaken to inform future stages and the appointment of an efficiency partner. Further work was planned for but due to timing of the efficiency partner procurement this has been deferred to 2013-14.

Families and Social Care Directorate (FSC) Data Quality

Scope

The overall objective of the audit was to provide assurance that adequate and effective controls are in place, and operating consistently to ensure that all data held within identified systems and data sources in FSC is accurate, reliable and complete.

Overall Assessment – Adequate

Quality data is essential to provide reliable performance and financial information to support decision making, plan services and complete statutory return submissions. This audit included review of a sample of key FSC systems, including SWIFT (Adult Social Care), E-Start (Children’s Centres) and the Direct Payments Advisoy Service system (Children’s Direct Payments).

The ‘Adequate’ assurance is based on sample testing which showed that appropriate controls are generally in place to maintain data quality for the systems reviewed. New users are only granted access after the successful completion of user training and data quality reports are generated on a regular basis to monitor and confirm the quality of data held.

We have made four recommendations, one of which is high priority, covering the migration of records to new systems, data quality responsibilities where the service is provided by a third party and the periodic testing of system backups.

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Establishments

Scope

The programme of compliance audits for 2012-2013, included Children Centres, Adult Day Care and Pupil Referral Units (PRUs). The overall objective of the audits was to provide assurance that key financial controls are in place in all establishments, KCC performance monitoring standards are being met, and establishments comply with KCC safety and security policies.

21 reports have been issued to 16 Children Centres, one Adult Day Care Centre, two PRUs and a further two on the financial controls for Children Centre districts where this activity is centralised.

Overall Assessment

The reports included two High assurance, seven Substantial and seven Adequate opinions. Four establishments received limited assurance and one received no assurance, for which a follow-up audit is planned imminently.

Overall themes from the work undertaken in 2012-13 included: establishments were able to demonstrate that they are engaging with service users and partner organisations, including hard to reach groups; they were promoting diversity and using evaluation tools positively to identify areas for improvement. Training plans were in place and related to personal action plans and service priorities.

Recommendations have been made in relation to safety and security policies and procedures to further enhance controls. Areas for improvement include numbering and reporting of accident and incident forms and retaining evidence of the most recent health & safety and other inspections, including in shared premises.

In relation to financial control, recommendations have been made to enhance current controls in relation to income, use of commitment budgeting, purchasing, including the use of petty cash and purchase cards, declarations of business interests and fixed asset registers.

Public Health

Scope

The overall objective of the audit was to give assurance that adequate and effective controls are in place in relation to the reporting and monitoring of public health targets. The 2012-2013 audit focussed on smoking cessation.

Overall Assessment – Substantial (Draft)

The smoking cessation service is provided by by Kent Community Health Trust (KCHT). At the time of the audit responsibility for public health sat with the NHS and therefore the SLA (contract) was between the relevant Primary Care Trust(s) (PCT) and KCHT. Responsibility transferred to KCC on 1 April 2013.

The 'Substantial' assurance is based on testing of key controls in relation to quality assurance of data and supporting governance processes. There were effective controls in place in relation to appropriate up to date policies and procedures, training and support for GPs and Pharmacies, data quality assurance and performance monitoring undertaken by KCHT and performance reports are being generated regularly and submitted monthly at Committee and Board level.

We made two recommendations, neither of which are high priority, which include ensuring all required training is included within the training matrix and that target dates and RAG ratings are completed for all actions within the service plan.

Troubled Families

Scope

There is a requirement by the DCLG for Internal Audit to verify the self declarations of results submitted for the Payment by Results. The overall objective of the audit was to review the organisation's ability to support any future claims to the DCLG.

Overall Assessment – N/a Advisory only (Draft)

The Troubled Families financial framework is a results-based funding scheme for extra funding to deal with "Troubled Families". Funding will be paid primarily on a results basis to incentivise achieving outcomes. To assist with the set up costs, a proportion of the funding is paid upfront as an attachment fee for the number of families who the Council start working with. The rest is paid once they have achieved positive outcomes with a family.

This was an advisory review aimed at supporting the development of the "Troubled Families" programme and providing an assessment of the current control environment, with recommendations to assist the team in developing the process further. The audit identified that a number of processes were in development, including formal written agreements to support District bids for funding and establishing a suite of performance indicators to monitor progress on outcomes.

We have made four recommendations to further improve controls, one of which is high priority, covering retention of evidence to support agreement of Business Cases, standard financial monitoring reports, monitoring of individual project outcomes and milestones to monitor delivery of the overall Kent Troubled Families Programme

Social Media

Scope

The overall objective of the audit was to provide an assurance over the controls in place regarding the use of Social Media within the Council.

Overall Assessment - Adequate

Social media can be accessed by anyone with an internet-enabled device and through social media the Council is able to directly connect with its staff and the wider general public. The corporate use of social media technologies as a communication tool is managed by the Digital Services team who are a part of the Council's Communications and Engagement Division. The use of the social media is governed by Council policies and procedures and is monitored by the Council's ICT Division.

The 'Adequate' assurance is based on sample testing and interviews with key officers which confirmed that system of control is sufficiently sound to manage key risks over the use of Social Media. These were effective controls in place in relation to Social Media policy, identification of appropriate technology, the use of a media funnel platform to monitor how the Council is mentioned in posts by other users and the monthly production of a report on the performance and security of the Council's network infrastructure.

We have made six recommendations to further improve controls, none of which are high priority. These include undertaking risk assessments prior to commencement of projects, training on the use of social media, defining prohibited social media and related improvements to configuration to manage user access expected password standards for social media accounts, and the need to bring user account passwords for the media funnel application into line with the Council's standards.

IT BACS and Oracle Payments Application

Scope

The objective of the audit was to provide assurance that the controls in relation to the Oracle Payments and BACS applications, are adequate and meet corporate and industry best practice standards and requirements. The audit focused on the technical IT application system controls.

Overall Assessment - Substantial

The BACS product is supplied by Microgen. The Microgen Bacway-IP software is used for a wide range of applications including: payroll, supplier payments, setting up or cancelling direct debit instructions on customers' accounts, collecting direct debit payments and bureau functionality. The Oracle Payments system is part of the corporate Enterprise Resource Planning (ERP) e-business suite. BACS and Oracle Payments are considered to be critical systems as they enable the Council to make all its payments.

The 'Substantial' assurance is based on sample testing and interviews with key officers which confirmed that key controls are in place and operating as intended. There are effective controls to ensure that access to the system is restricted, separation of duties is maintained and only authorised users can gain access to the system. There are also effective input and validation controls to maintain the integrity of data entered and over the creation and processing of data and data transfer. Effective back up and change control processes exist and the system is well supported by the supplier.

We have made five recommendations to further improve controls, none of which are high priority, which include access to the BACS application back-end, options to promptly confirm that the BACS submission totals received by the bank match the totals transmitted via the Bacway-IP system and locking user accounts after three unsuccessful sign on attempts including reporting unsuccessful access attempts.

IT Oracle Human Resources (HR) Application

Scope

The overall objective of the audit was to provide assurance that the controls in relation to the Oracle HR application, are adequate and meet corporate and industry best practice standards and requirements. The audit focused on the technical IT application system controls.

Overall Assessment - Substantial

The Oracle HR module of the e-business suite is used for setting up new starters, restructuring personnel records, facilitating self service operations, managing staff expenses and performance management. This module is considered to be critical as it enables the Council to maintain and manage all its staff costs via a single repository for better availability and accuracy of information.

The 'Substantial' assurance is based on sample testing and interviews, confirming that in areas relating to first line support, database maintenance and the day to day operations of Oracle HR, key controls are in place and operating as intended. There are effective controls in place to ensure that user access is adequately managed, back up and change control processes are in place and the system is well supported by the supplier, Oracle. There are also effective controls to ensure the accuracy and integrity of data entered and the completeness and security of outputs reported and distributed from the system.

We have made two recommendations to further improve controls, neither of which are high priority. These include that users should sign to confirm they have read and understood the user responsibility statement and expanding the scope of reporting and review of the changes to master data (such as grades changes).

Disaster Recovery

Scope

The overall objective of the audit was to provide assurance over the Council's disaster recovery (DR) processes. This audit is separate to the recent business continuity audit, which addressed continuity of service operation.

Overall Assessment – Substantial

Disaster recovery planning enables the recovery of ICT systems in the event of a business disruption. Given that information and communication technology plays an increasingly important role in the delivery of Council services, the ability to recover these systems in a timely manner is a key component of disaster recovery. All KCC applications are housed within servers which are either controlled by ICT or are fully hosted by third parties. These are backed up regularly either by ICT or the hosting partners.

The 'Substantial' assurance is based on sample testing and interviews with key officers, which confirmed that Disaster Recovery plans have been established for the Council's key/critical systems.

We have made five recommendations to further improve controls, none of which are high priority. These include improving the completeness of records kept of the Council systems covered by disaster recovery plans; carrying out a wider risk analysis of the potential disaster threats to IT systems; storing IT disaster recovery plans in a more secure manner; and introducing more regular reviews and tests of disaster recovery plans.

Bring Your Own Devices

Scope

The aim of this audit was to provide a framework of controls and a management plan in the form of suggested actions to assist KCC in managing the risks associated with the Bring Your Own Device (BYOD) approach and movement within the Council.

Overall Assessment – N/a Advisory only

BYOD relates to employees using their own mobile devices (smart phones, laptops and tablets) to access Council systems and data in order to perform their work. This shift introduces new risks that require an updated approach to information security, as sensitive Council data is made available on devices not owned or managed by the Council. Furthermore, the variety of devices that may be used brings added complications to the implementation of security controls across the life of an asset.

The review found that BYOD deployment is at an early stage and conceptual phase at the Council. Whilst there was a strategy in place, this has not been formally approved and a technical solution has yet to be procured, configured and implemented for the administration, management and security of BYOD. As a result suggested actions were provided for management consideration and no formal opinion was issued.

The suggested actions included: formal review and approval the BYOD Strategy, carrying out a full risk assessment for BYOD; developing a formal BYOD Policy and User Agreement, procurement of an industry standard Mobile Device Management (MDM) solution to centrally manage, administer and secure BYOD at KCC, and development of periodic monitoring and management reporting.

Supporting People – Procurement and contract compliance

Scope

The overall objective of this audit was to provide assurance on the contract management and procurement practices that were in place and their effectiveness, within the Supporting People Programme.

Overall Assessment – Limited

The Supporting People Programme was initially a national government initiative via a ring fenced grant with1400 contracts inherited from CLG in 2003. In 2010 the funding became part of the area based grant. The programme has approximately 279 contracts with an expenditure of £25m p.a. There have been budget and staff reductions in recent years and the team has merged with the Kent Drugs & Alcohol Team (KDAAT) to create a single unit. Overall, the programme's aims are to focus on prevention of homelessness and achieving or maintaining independence.

The 'Limited' assurance is based on several issues that require prompt management attention to develop the controls in place and inform processes going forward. In particular the majority of current contracts require review and re-tendering with appropriate authorisation processes. A needs analysis is currently being commissioned to undertake work that will inform a future commissioning plan and set out the commissioning activity over the next five years. This should be supported by consistent application of quality assurance and contract monitoring processes.

We have made three recommendations to improve the existing controls, all of which are high priority.

Longfield Academy, inc Ashford Gateway – post build procurement and contract compliance review

Scope

The overall objective of this audit was to provide assurance on the contract management and procurement practices that were in place and their effectiveness through a post build review of Ashford Gateway Plus and Longfield Academy.

Overall Assessment – Limited

The Department for Children, Schools and Families (DCSF) and Partnerships UK set up Partnerships for Schools (PfS) to manage the delivery of the "Building Schools for the Future" (BSF) programme. The DCSF asked PfS to take on delivery of Academies in March 2006, following the proposal made in June 2005 by the Secretary of State to more closely align investment in Academies with the BSF programme. KCC took five separate Academy projects through a framework advertised by PfS during 2008/09, under a batched programme. One of these was Longfield Academy.

Ashford Gateway Plus was designed to provide a quality, holistic service to the customer and a number of services were brought together under one roof including other public service providers and agencies. The project was complex with many partners and stakeholders.

The 'Limited' assurance is based on certain issues that require prompt management attention for future builds, to help ensure objectives are met and further develop the current controls in place. Particular areas for development include that contract files should be comprehensive ensuring information can be sourced in a timely fashion and all key documents to demonstrate the procurement processes should be easily accessible. In addition, contracts should be signed promptly.

We have made three recommendations to improve the existing controls, all of which are high priority.

Leaving Care Service – Procurement and contract compliance

Scope

The overall objective of this audit was to provide assurance on the contract management and procurement practices that were in place and their effectiveness, for the contracted Leaving Care Services within the Families and Social Care Directorate.

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Overall Assessment – Limited

Kent County Council has a legal duty under the Children (Leaving Care) Act 2000 to provide support services to looked after children in their transition from being in care to becoming independent. This service is currently outsourced to a 3rd party provider under a contract originally worth £30,000,000

The 'Limited' assurance is based on several issues that require prompt management attention to improve existing controls and assist in achievement of service objectives. In particular procurement planning, approval and decision making could be further developed and this should be supported by appropriate evidence. There have been several improvements in the performance and financial management processes and this should be regularly and consistently applied to ensure further improvements are obtained from this and other contracts. The findings of the report are aimed at helping to inform the procurement of other services going forward.

We have made twelve recommendations to improve the existing controls, ten of which are high priority.

Appendix B - Detailed Analysis of internal audit projects in 2012/2013

Project – Directorate	Progress at July 2013	Date to G&A	Overall Assessment	Project – Directorate	Progress at July 2013	Date to G&A	Overall Assessment
Core Assurance				**Core financial assurance**			
Corporate Governance Phases 1&2	Complete	Sept 2012	Substantial	General ledger	Complete	July 2013	Substantial
Annual Governance Statement	Complete	Sept 2012	Substantial	Payments process (formerly AP)	Complete	July 2013	Limited
Schemes of delegation	C/f 13/14	N/A	N/A	iProcurement	In payments audit		N/A
Risk Management	Complete	July 2013	Adequate	Corporate Purchase Cards	Complete	July 2013	Adequate
Business Continuity and resilience planning	Complete	July 2013	Adequate	Capital Programme – planning and monitoring	Complete	July 2013	Substantial
Performance Management Framework	Complete	July 2013	Substantial	Revenue Budget Monitoring	Complete	July 2013	Adequate
Information Governance	Complete	July 2013	Adequate	Treasury Management	Complete	July 2013	High
Data quality authority wide	In perf mgt audit		N/A	Pensions Investments	Complete	July 2013	Substantial
Procurement	Complete	July 2013	Adequate	Pensions Contributions	Complete	July 2013	High
Business & Financial Planning	Complete	April 2013	High	Fixed Assets	Cancelled		N/A
Partnerships	Complete	July 2013	N/A - Advisory	Payroll	Complete	April 2013	Substantial
Managing Absence	Complete	Dec 2012	Substantial	East Kent Payroll	Cancelled		N/A
Learning and Development	Complete	July 2013	Adequate	Social care client billing	Draft report	July 2013	Substantial
Other leave	Complete	April 2013	Adequate	Foster care payments	Compete	Dec 2012	Limited
Leaving the organisation	Complete	Sept 2012	Substantial	Schools compliance	Complete	July 2013	N/A - Advisory
Workforce planning	Complete	July 2013	Adequate	Local budgetary reviews	C/f 13/14	N/A	N/A

Project – Directorate	Progress at July 2013	Date to G&A	Overall Assessment
Core Financial Assurance			
Financial Control Audits	Reported separately		
VAT	Complete	July 2013	Substantial
Risk Based assurance			
Service Re-design	Complete	April 2013	Substantial
Locality Boards	Complete	N/A	N/A - Advisory
Regeneration & Economy (RGF)	Complete	July 2013	High
Property Disposals	Complete	April 2013	Adequate
Developer Contributions	Complete	July 2013	Limited
Personal Budgets	Complete	July 2013	Limited
Strategic commissioning	Complete	N/A	N/A - Advisory
Case File audit process	Complete	Dec 2012	Limited
Financial Management	Incorporated into financial controls audits		N/A
FSC Data Quality	Complete	July 2013	Adequate
Management of complaints FSC	Incorporate into corporate complaints	N/a	N/a
Establishment visits	Complete	July 2013	Various
Public Health	Complete	July 2013	Substantial

Project – Directorate	Progress at July 2013	Date to G&A	Overall Assessment
Risk Based assurance			
Commercial Services LASER follow up	Complete	Dec 2012	Adequate
Carbon Reduction Commitment	Complete	April 2012	Compliant
SEN Transport	In progress		
Special Education Needs	Complete	Dec 2012	Limited
Consultation	Complete	Dec 2012	Adequate
No use Empty	Complete	Sept 2012	Adequate
Troubled Families	Draft report	July 2013	N/a - Advisory
Broadband Delivery UK	Complete	N/A	N/A - Advisory
Communication Strategy	C/F 13/14	N/A	N/A
Complaints, comments & compliments	C/F 13/14	N/A	N/A
Safeguarding Adults	In progress		
Contract Compliance			
Professional and Highway Consultancy contract	Complete	September 2012	Limited
Network Management Term Maintenance	In progress		
East Kent Waste Partnership	Complete	April 2013	Adequate

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Project – Directorate	Progress at July 2013	Date to G&A	Overall Assessment	Project – Directorate	Progress at July 2013	Date to G&A	Overall Assessment
Biffa Household Waste Recycling Centre	Complete	December 2012	Adequate	**IT Assurance**			
Paper and card	Cancelled	N/A`	N/A	Social Media	Complete	July 2013	Adequate
Kent Connexions	Complete	December 2012	N/a – Advisory	BACS/Oracle payments application	Complete	July 2013	Substantial
Leaving care service	Complete	July 2013	Limited	Oracle HR module application review	Complete	July 2013	Substantial
Kings Hill	Complete	April 2013	N/a – Advisory	Network Security	Complete	Dec 2012	Substantial
Highways New Contract	Complete	April 2013	N/a – Advisory	ICT Procurement	In progress		
Recycling Waste Supplier Advice	Complete	April 2013	N/a – Advisory	Disaster Recovery	Complete	July 2013	Substantial
Highways Contract Closure	Complete	April 2013	N/a – Advisory	Bring Your Own Devices	Complete	July 2013	N/A - Advisory
Ashford Gateway Plus	Incorporated into Longfield Academy		N/A	User Equipment Asset Management	C/f 13/14	N/A	N/A
Supporting People	Complete	July 2013	Limited	Unified Communications	Complete	N/A	N/A – Advisory
Longfield Academy	Complete	July 2013	Limited				

Key	Audit Assurance definitions
High	There is a sound system of control operating effectively to achieve service/system objectives. Any issues identified are minor in nature and should not prevent system/service objectives being achieved.
Substantial	The system of control is adequate and controls are generally operating effectively. A few weaknesses in internal control and/or evidence of a level on non-compliance with some controls that may put system/service objectives at risk.
Adequate	The system of control is sufficiently sound to manage key risks. However there were weaknesses in internal control and/or evidence of a level of non compliance with some controls that may put system/service objectives at risk.
Limited	Adequate controls are not in place to meet all the system/service objectives and/or controls are not being consistently applied. Certain weaknesses require immediate management attention as if unresolved they may result in system/service objectives not being achieved.
No assurance	The system of control is inadequate and controls in place are not operating effectively. The system/service is exposed to the risk of abuse, significant error or loss and/or misappropriation. This means we are unable to form a view as to whether objectives will be achieved.

Appendix C - Internal Audit Charter

Introduction:

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

Purpose:

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. [1]

Kent County Council's Internal Audit mission statement is, "To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives 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 2011. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The council has delegated this responsibility to the Corporate Director of Finance & Procurement.

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:

The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. This is structured around four attribute and six performance standards, including criteria for measuring the performance of the internal audit function 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 Corporate Director of Finance, Head of Paid Service 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. Internal Auditors will also refrain from assessing specific operations for which they were previously responsible, within the previous year. [1]

Audit Scope

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors) and the Governance and Audit Committee (Board) 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 and corruption awareness
- Investigating allegations of fraud and corruption
- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

Internal Audit's activities extend to all remote establishments, subsidiary companies and trading activities.

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 Internal Audit 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 Annual Governance Statement.

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 Internal Audit or the Counter Fraud Manager who will determine if an investigation needs to take place. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the 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 will ensure that all information received as part of their work is treated confidentially at all times.

Internal Audit Resources

An internal audit plan is developed annually which takes into account the work that is needed to enable the Head of Internal Audit 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. On occasion, the Head of Internal Audit may use partner or third parties to deliver aspects of the plan. In these circumstances, the Head of Internal Audit will ensure the partner has the appropriate knowledge and experience to deliver the engagement, applies the quality assurance standards of the section and has access to all information and explanation required to undertake the engagement (coordinated through Internal Audit managers).

Review of the Effectiveness of the System of Internal Audit

In accordance with the Accounts and Audit Regulations (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 Internal Audit 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 Internal Audit will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee. The Head of Internal Audit will review the Charter annually and attach a revised document to the annual internal audit report.

Provision of assurance to third parties

The Council's Internal Audit section is sometimes requested to undertake Internal Audit and assurance activity for third parties, such as Kent Fire and parishes. These include internal audit services, grant certification and financial account sign-off. The same principles detailed in this Charter will be applied to these engagements.

Grant Thornton

Public sector internal audit standards: evolution not revolution

Spring 2013

Overview

The Relevant Internal Audit Standard Setters including CIPFA, HM Treasury and Department of Health have adopted a common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2013.

The new standards will encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework, inserting requirements and interpretations of the UK public sector where appropriate and replacing the existing standards in local government, including the CIPFA Code of Practice for Internal Audit in Local Government.

The standards apply to all internal audit service providers, whether in-house, shared service or outsourced.

Purpose

The new standards have been developed to provide coherent and consistent standards for internal audit across the UK public sector.

Objectives

The objectives of the standards are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services which add value to the organisation, leading to improved organisational processes and operations
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

What are the main issues and changes?

Existing requirements

- **The chief audit executive** – The chief audit executive, previously referred to as the head of audit, must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

- **Annual report** – The requirement for the production of an internal audit annual report remains.

- **Risk-based audit plan** – There is still a requirement to produce a risk based audit plan. However, the requirement to produce an audit strategy has been removed and replaced with a risk based plan that incorporates or links to a strategic statement setting out how the internal audit service will be provided and how The Charter will link to the authority's objectives and priorities.

New requirements

- **Internal Audit Charter (The Charter)** – The Charter must formally define the purpose, authority and responsibility of the internal audit activity. It will also cover arrangements for avoiding conflicts of interest if internal audit performs non-audit activities.

- **Quality assurance** – The quality of service should be rigorously checked under a quality assurance and improvement programme which requires on-going internal assessments of all aspects of internal audit activity, as well as external assessment every five years. The programme is designed to assess the efficiency and effectiveness of internal audit as well as identify opportunities for improvement. There is a requirement for the chief audit executive to include a section on the quality assurance and improvement programme within the internal audit annual report.

- **Internal assessment** – There will be an increase in the level of assessments which will involve monitoring the department's activity and will be in line with the current quality review procedures. Additionally, there will be periodic assessments carried out by other officers of the organisation, who will have sufficient knowledge of internal audit practices.

- **External assessment** – The assessment will need to be performed by qualified and independent assessors or assessment teams that are external to the organisation. They can be undertaken as a full external evaluation or a self-assessment with independent external validation, but it cannot be carried out on a rolling basis.

- **Effective communication** – Standards specify a requirement for "effective communication" between the chief audit executive and the audit committee and there is specific reference to effective communication with the committee chair. In this context "effective communication" refers to the engagement of the committee's membership – and of the chair in particular – in discussions with the chief audit executive about: the authority's risks and assurance requirements; the level of assurance provided; issues of concern raised by audit work undertaken; and the implementation of agreed recommendations and the enhanced assurance arising.

Next steps

CIPFA's local government application note for the new standards, due out in March, will include a full PSIAS checklist.

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By: Neeta Major – Head of Internal Audit

To: Governance and Audit Committee – 24 July 2013

Subject: **REVIEW OF ANTI-FRAUD AND CORRUPTION STRATEGY**

Classification: Unrestricted

Summary: This paper provides a summary of proposed amendments to the Council's Anti-Fraud and Corruption Strategy.

FOR DECISION

Introduction and Background

1. In April 2012 the Government launched "Fighting Fraud Locally: The Local Government Fraud Strategy". The strategy calls for a tougher approach to tackling fraud against local authorities and is organised around three themes of Acknowledge, Prevent and Pursue. A copy of the document is available on KNet via the counter fraud pages.
2. We have completed an annual review of the Council's Anti-Fraud and Corruption Strategy in line with the themes and principles of the government strategy. Having completed this review we are of the view that the strategy remains fit for purpose and only requires a minor amendment in relation to the renaming of the Criminal Records Bureau (paragraph 17).
3. In these circumstances the strategy would not normally be re-presented to the Committee for approval, but given the change in membership of the Committee, the Anti-Fraud and Corruption Strategy has been attached at Appendix A for the Committee to approve.
4. New Committee members may wish to note the sections on culture (para. 3), the role of elected members (para. 4 & 5), raising concerns (para. 31 - 34) and the actions if evidence of a criminal offence is discovered (para. 17 - 29 of Annex 1).

Recommendations

5. Members are asked to approve the slightly amended Anti-Fraud and Corruption Strategy (Appendix A).

Paul Rock
Counter Fraud Manager
Ext: 4694

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Anti-Fraud and Corruption Strategy

Introduction

1. Kent County Council is committed to the Local Government Fraud Strategy: Fighting Fraud Locally which means the Council will:

    - Acknowledge the threat of fraud and the opportunities for savings that exist.
    - Prevent and detect all forms of fraud.
    - Pursue appropriate sanctions and recover any losses.

2. The Council is committed to the highest standards of probity in the delivery of its services, ensuring proper stewardship of its funds and assets. This strategy promotes:

    - A zero-tolerance attitude to fraud requiring staff and Members to act honestly and with integrity at all times, and to report all reasonable suspicions of fraud.
    - The prevention of fraud and the promotion of an anti-fraud culture.
    - The investigation of all instances of actual, attempted and suspected fraud committed by staff, Members, consultants, suppliers and other third parties and the recovery of funds and assets lost through fraud.

Culture

3. Kent County Council wishes to promote a culture of honesty and opposition to fraud and corruption. It will ensure probity in local administration and governance and expects:

    - Members and staff to lead through example by acting with integrity at all times and ensuring adherence to legal requirements, policies and procedures, rules and good practice.
    - All individuals and organisations (eg suppliers, contactors and service providers) with whom it comes into contact will act with integrity in all dealings with the Council.
    - Members, staff, bodies and organisations external to the Council, to report suspected fraud, corruption or other irregularity to the Head of Internal Audit in accordance with the Council's Financial Regulations, and Fraud Response Plan for Managers (Annex 1).
    - Senior managers to deal promptly and firmly with those who defraud, or seek to defraud the Council, or who are corrupt. The Council will always be robust in dealing with financial malpractice or those who breach statutory and legal obligations and its code of conduct.

Roles and Responsibilities

The Role of Elected Members

4. As elected representatives, all Members of Kent County Council have a duty to act in the public interest and to do whatever they can to ensure that the Council uses its resources in accordance with statute.
5. This is achieved through members operating within the Constitution which includes the Code of Member Conduct, Financial Regulations and Spending the Council's Money.

The Role of Employees

6. Kent County Council expects its employees to be alert to the possibility of fraud and corruption and to report any suspected fraud or other irregularities to the Head of Internal Audit.
7. Employees are expected to comply with the appropriate Code of Conduct and the Council's policies and procedures.
8. Employees are responsible for complying with Kent County Council's policies and procedures and it is their responsibility to ensure that they are aware of them. Where employees are also members of professional bodies they should also follow the standards of conduct laid down by them.
9. Employees should follow instructions given to them by management. They are under a duty to properly account for and safeguard the money and assets under their control/charge.
10. Employees are required to provide a written declaration of any financial and nonfinancial interests or commitments, which may conflict with KCC's interests. KCC Financial Regulations specify that employees who have a direct or indirect financial interest in a contract shall not be supplied with, or given access to any tender documents, contracts or other information relating to them, without the authority of the senior manager.
11. Failure to disclose an interest or the acceptance of an inappropriate reward may result in disciplinary action or criminal liability. Staff must also ensure that they make appropriate disclosures of gifts and hospitality.
12. Managers at all levels are responsible for familiarising themselves with the types of fraud that might occur within their directorates and the communication and implementation of this strategy.
13. Managers are expected to create an environment in which their staff feel able to approach them with any concerns that they may have about suspected fraud or any other financial irregularities.

Kent County Council's Commitment

14. Fraud and corruption are serious offences and employees and Members will face disciplinary action if there is evidence that they have been involved in these activities. Where criminal offences are suspected consideration will be given to pursuing criminal sanctions which may involve referring the matter to the police.

15. In all cases where the Council has suffered a financial loss, appropriate action will be taken to recover the loss.

16. In order to make employees, Members, the public and other organisations aware of the Council's continued commitment for taking action on fraud and corruption, details of completed investigations, including sanctions made will be publicised where it is deemed appropriate.

Prevention

Recruitment checks

17. A key measure to preventing fraud and corruption is to carry out rigorous pre-employment checks to establish the previous record and history of potential employees in terms of their integrity and propriety. This includes:-

- obtaining suitable and relevant references;
- checking gaps in employment history,
- checking qualifications;
- checks by the Disclosure and Barring Service (DBS).

18. The recruitment of temporary, permanent employees and agency staff is treated the same.

Responsibilities of management

19. The primary responsibility for the prevention and detection of fraud is with management. They must ensure that they have the appropriate internal controls in place, that they are operating as expected and being complied with. They must ensure that adequate levels of internal checks are included in working practices, particularly financial. It is important that duties are organised in such a way that no one person can carry out a complete transaction without some form of checking or intervention process being built into the system.

Internal Audit

20. Internal Audit is responsible for the independent appraisal of controls and for assisting managers in the investigations of fraud and corruption.

21. Internal Audit includes proactive fraud work in its annual audit plan, identifying potential areas where frauds could take place and checking for fraudulent activity.

Working with others

22. The Council is committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible the Council will assist and exchange information with other appropriate bodies to facilitate the investigation of and to combat fraud. Kent County Council's Internal Audit Section will facilitate the exchange of information.

National Fraud Initiative

23. Kent County Council participates in the National Fraud Initiative (NFI). This requires public bodies to submit a number of data sets (currently to the Audit Commission) for example payroll, pension, and accounts payable (but not limited to these) which is then matched to data held by other public bodies. Any positive matches (eg an employee on the payroll in receipt of housing benefit) are investigated.

Whistleblowing Procedure

24. The Council's Whistleblowing Procedure is intended to encourage and enable staff and organisations or individuals to raise serious concerns. Whilst employees are afforded certain rights and protection through legislation enacted under the Public Interest Disclosure Act 1998, the Council will do its best but cannot guarantee to protect the identity of an individual who raises a concern but does not want their name to be disclosed.

25. Employees (including managers) wishing to raise concerns should obtain a copy of the Whistleblowing Procedure on KNet.

Training and awareness

26. The success of the Anti-Fraud and Corruption Strategy is dependent on risk awareness, the effectiveness of training, including induction and the responsiveness of staff throughout the Council.

27. The Council will provide induction and ongoing training to staff, particularly those involved in financial processes and systems to ensure that their duties and responsibilities are regularly highlighted and reinforced.

28. Internal Audit will provide fraud awareness training on request and will publish its successes to raise awareness.

Detection and Investigation

29. Any suspected fraud, corruption or other irregularity should be reported to the Head of Internal Audit. The Head of Internal Audit will decide on the appropriate course of action to ensure that any investigation is carried out in accordance with best practice and to ensure that any investigation does not jeopardise any potential disciplinary action or criminal investigation.

    Action could include:

    - Investigation carried out by Internal Audit staff;
    - Joint investigation with Internal Audit and relevant directorate management;
    - Directorate staff carry out investigation and Internal Audit provide advice and guidance;
    - Police referral.

30. The responsibility of investigating potential fraud, corruption and other irregularities within KCC lies mainly (although not exclusively) with the Internal Audit Section. Staff involved in this work will therefore be appropriately trained, and this will be reflected in training plans.

Raising Concerns

31. Employees (including Managers) wishing to raise concerns should refer to the Council's Whistleblowing Procedure.

32. Suspected or apparent fraud and irregularities must be brought to the attention of the Head of Internal Audit in accordance with Financial Regulations. Where the irregularities relate to an elected Member, there should be an immediate notification to the Head of Paid Service or the Monitoring Officer.

33. If a member of the public suspects fraud or corruption they should contact the Head of Internal Audit or Counter Fraud Manager in the first instance. They may also contact the Council's External Auditor, who may be contacted in confidence via the Council's main telephone switchboard.

34. The Council's Internal Audit Section can be contacted by telephone on 01622 694694 or by mail to internal.audit@kent.gov.uk.

Conclusion

35. Kent County Council will maintain systems and procedures to assist in the prevention, detection and investigation of fraud. This strategy will be reviewed annually and is available on the Council's Intranet (KNet).

Fraud Response Plan

Introduction

1. This Fraud Response Plan forms part of the Council's overall Anti-Fraud Strategy and covers the Council's response to suspected or apparent irregularities affecting resources belonging to or administered by the Council, or fraud perpetrated by contractors and suppliers against the Council.

2. It is important that Managers know what to do in the event of fraud, so that they can act without delay. The Fraud Response Plan for Managers provides such guidance to ensure effective and timely action is taken. Other documents that should be referred to when reading the Plan include:
   - Officers' Code of Conduct
   - Disciplinary procedure
   - Financial Regulations

Objective of the Fraud Response Plan

3. To ensure that prompt and effective action can be taken to:
   - Prevent losses of funds or other assets where fraud has occurred and to maximise recovery of losses
   - Identify the perpetrator and maximise the success of any disciplinary or legal action taken
   - Reduce adverse impacts on the business of the Council
   - Minimise the occurrence of fraud by taking prompt action at the first sign of a problem
   - Minimise any adverse publicity for the organisation suffered as a result of fraud
   - Identify any lessons which can be acted upon in managing fraud in the future

How to Respond to an Allegation of Fraud

Management

4. Where it is appropriate to do so (where this can be done without alerting the perpetrator to the investigation, or staff involved have sufficient experience to do so without compromising any potential disciplinary or criminal investigation) initial enquiries may be made to determine if there actually does appear to be an issue of fraud or other irregularity.

5. The purpose of the initial enquiry is to confirm or repudiate the suspicions that have arisen so that, if necessary, further investigation may be instigated.

6. During the initial enquiry, managers should:

    - Determine the factors that gave rise to the suspicion
    - Examine factors to determine whether a genuine mistake has been made or whether a fraud or irregularity has occurred (i.e. any incident or action that is not part of normal operation of the system or the expected course of events)
    - Where necessary, carry out discreet enquiries with staff and / or review documents.

7. If the results of the initial inquiry indicate that a more detailed investigation should be undertaken, managers should contact the Internal Audit Section.

8. Internal Audit should be informed as soon as possible of all suspected or discovered fraud or corruption, in order that they may offer advice on any specific course of action that may be necessary. Managers must inform Internal Audit of:

    - All the evidence that they have gathered.
    - The actions they have taken with regard to the employee (e.g. suspension or redeployment) or any other action taken to prevent further loss.

Internal Audit

9. Depending on the size of the fraud or the circumstances of its perpetration, the Head of Internal Audit will consider whether Internal Audit staff should undertake the investigation. If appropriate, advice and guidance will be provided to enable an investigation to be undertaken by the manager's own staff.

10. Internal Audit will review the outcome of the investigation (irrespective of whether undertaken by its own staff or directorate staff), to ensure that appropriate action is taken to help disclose similar frauds and make recommendations to strengthen control systems.

Investigating Officer

11. The respective Investigating Officer (either from the directorate or from Internal Audit) will:

    - Deal promptly with the matter
    - Record all evidence that has been received
    - Ensure that evidence is sound and adequately supported
    - Secure all of the evidence that has been collected
    - Where appropriate, contact other agencies
    - When appropriate, arrange for the notification of the Council's insurers
    - Report to senior management, and where appropriate, recommend that management take disciplinary/criminal action in accordance with this strategy and the Council's Disciplinary Procedures.

12. Where circumstances merit, close liaison will take place between the Investigating Officer, the respective Directorate and Human Resources as appropriate.

Evidence

13. The best form of evidence is original documentation. Where it is not possible to obtain originals, for whatever reason, a copy will normally suffice. The copy should be clearly endorsed as a copy and if possible certified as a true copy of the original. This should preferably be certified by the person who took the copy from the original source document.

Interviews

14. Managers should not conduct any interviews with any suspect or potential witness without seeking advice beforehand from Internal Audit.

15. The matters under investigation may constitute criminal acts, and consequently any interview of potential suspects must be conducted and recorded under specific guidelines as detailed in the Police and Criminal Evidence Act 1984 (PACE). Criminal proceedings may be compromised by conducting interviews outside of the scope of PACE.

16. Normal practice will be that Internal Audit staff conduct and/or control any interview related to suspected criminal offences.

If Evidence of a Criminal Offence is Discovered

17. At the conclusion of an investigation it may be appropriate to pursue a criminal prosecution. This can be achieved by referring the evidence to the police or alternatively KCC could instigate its own criminal proceedings.

18. Section 222 of the Local Government Act 1972 empowers local authorities, where they consider it "expedient for the promotion or protection of the interests of the inhabitants of their area to:

    - prosecute or defend or appear in legal proceedings and, in the case of civil proceedings, institute them in their own name, and
    - in their own name, make representations in the interests of the inhabitants at any public inquiry held by or on behalf of any Minister or public body under any enactment".

Police referral

19. Where there is evidence that a criminal act has taken place and referral to the police is considered appropriate by the Head of Internal Audit, any necessary Police liaison will be undertaken by Internal Audit staff.

20. Once referred to the police the decision whether to charge, caution or discontinue any case will rest solely with the police and the Crown Prosecution Service and their decision is final.

Instigating Criminal Proceedings and the Decision to Prosecute

21. This section is not intended to be prescriptive and each case will be considered on its individual merits. This section describes criteria relating to the alleged offence, alleged offender and value of the fraud that will be taken into account.

22. When the Council is considering instigating criminal proceedings the case will be objectively assessed by the Head of Internal Audit who will separately assess the circumstances and the evidence in relation to each potential defendant and each alleged offence.

23. The Head of Internal Audit will give due regard to aggravating and mitigating factors; any evidence pointing towards a statutory (or other) defence; and the Code for Crown Prosecutors. In relation to the Code for Crown Prosecutions consideration will be given to:

    - whether there is sufficient admissible evidence that a criminal offence has been committed and there is a realistic prospect of conviction; and
    - whether the prosecution is in the public interest.

24. The following are some specific criteria which will be taken into account (when relevant) whenever a prosecution is contemplated. This will ensure that a prosecution is brought only where it is appropriate to do so and promote consistency in the decision making process.

Aggravating Factors	**Mitigating Factors**
• The impact or potential impact of the offence is so serious that prosecution is the only suitable method for disposal.	• Prompt acknowledgement of guilt.
• There has been long term or recurring offending.	• Making timely and appropriate compensation to the victim(s).
• Age or vulnerability of the victim(s).	• Previous good character.
• Amount of gain for the offender or the amount of loss to the victim relative to the victim's status.	• Age of the defendant.
• Impact of the crime on the victim.	• Degree of culpability.
• Prevalence of the offence and its impact on the community.	• Other strong mitigation.
• Any attempt by the offender to conceal his/her identity, whether directly or indirectly, such that the victim, and or investigating agencies, cannot easily identify or	

trace the person.

- Lack of remorse.
- The offender's history including previous advice, warnings, cautions and convictions.
- There is evidence of significant and/or continuing consumer or public detriment.
- There is risk to public health and safety, the environment, animal health and welfare, or a potential impact on disease control and/or traceability.
- The offender has acted fraudulently or is reckless or negligent in their activities.
- The offer of a simple or conditional caution has been rejected.
- An officer was obstructed.

25. If during the course of the prosecution process new information becomes available, or the defendant's circumstances alter, a re-assessment of the course of action will be made and, if necessary, a prosecution withdrawn or a different allegation substituted.

After the Decision

26. Once the Head of Internal Audit has decided whether a criminal prosecution should be pursued, the appropriate Corporate Director will be consulted. If a prosecution is to be pursued the case will be referred to Legal Services who will review the case and if appropriate instigate criminal proceedings on behalf of the Council.

27. It should be noted that the final decision regarding whether or not a case is presented in court rests with the prosecuting solicitor. Where the prosecuting solicitor is the Council's Legal Services, a decision not to proceed with a case will only be taken after discussion in the first instance with the instructing officer.

Simple and Conditional Cautions

28. Where a prosecution could succeed and the offender admits their guilt, but the individual circumstances of the case suggest that a more lenient approach may be appropriate, consideration will be given to referring the matter to the police requesting they deal with the case by way of a simple or conditional caution.

Monitoring

29. The Head of Internal Audit will report annually on the number of cases referred for prosecution and their outcomes to the Governance and Audit Committee.

Glossary of Terms

Fraud

The term ‘fraud’ is commonly used to describe the use of deception to deprive, disadvantage or cause loss to another person or party. This can include theft, the misuse of funds or other resources or more complicated crimes such as false accounting and the supply of false information.

The legal definition of fraud contained within the Fraud Act 2006 includes; fraud by false representation; fraud by failing to disclose information and fraud by abuse of position. Fraud is typically associated with financial loss however the strategy relates to acts of dishonesty whether or not financial loss is incurred.

Corruption

Corruption is defined as the offering, giving, soliciting or acceptance of an inducement or reward that may influence the action of any person.

The main law relating to corruption in public bodies is contained in the Public Bodies Corrupt Practices Act 1889 and the Prevention of Corruption Act 1906 as supplemented by the Prevention of Corruption Act 1916, Local Government Act 1972 and the Anti-Terrorism Crime and Security Act 2001.

The law specifies that it is sufficient to prove that money or other consideration has been given or received and will presume that the money or consideration has been given or received corruptly unless the contrary is proved. This represents a reversal of the usual legal presumption of guilt and innocence.

Corruption occurs if a person offers gifts or consideration as an inducement or acts in collusion with others (two or more persons acting together). This could involve elected Members or officers of the Council, members of the public or other third parties.

Bribery

New UK anti-bribery legislation also came into force on 1 July 2010. The Bribery Act 2010 made it an offence to;

- Offer, promise or give a bribe (section1).
- Request, agree to receive, or accept a bribe (section 2).
- Bribe a foreign public official in order to obtain or retain business (Section 6).
- The Act also introduced a new corporate offence (section 7) of failure by a commercial organisation to prevent bribery in the course of its business.

The Council’s anti-bribery policy and procedures can be accessed on KNet.

By: Neeta Major – Head of Internal Audit

To: Governance and Audit Committee – 24 July 2013

Subject: **ANTI-FRAUD AND CORRUPTION PROGRESS REPORT**

Classification: Unrestricted

Summary: This paper provides a summary of progress of anti-fraud and corruption activity as well as the outcome of investigations concluded since the last Governance and Audit Committee meeting in April 2013.

FOR ASSURANCE

Introduction and Background

1. Within Kent County Council the responsibility for anti-fraud and corruption activity is set out within the Council's Financial Regulations and the Terms of Reference for the Governance and Audit Committee. The work of the Committee is to ensure that the Council has a robust counter-fraud culture backed by well-designed and implemented controls and procedures. This paper supports the Committee in meeting this outcome.

Anti-Fraud and Corruption Activity

Fraud Awareness

2. We continue to highlight fraud risks across the Council including schools and have provided fraud awareness presentations to staff in Libraries and Archives, Community Learning and Skills and senior leaders within schools. We will continue to raise the level of fraud awareness across the Council which should increase the number and quality of referrals.

Managing the Risk of Fraud

3. We have carried out a self assessment of the Council's anti-fraud and corruption arrangements against the CIPFA Red Book 'Managing the Risk of Fraud - Actions to Counter Fraud and Corruption'. The Red Book is divided into five key areas of activity covering the strategic approach to anti-fraud and corruption, measuring fraud and corruption losses, the necessary authority and support for anti-fraud and corruption work, the range of actions taken to tackle problems (e.g. deterrence, prevention, detection, investigation, sanctions and redress), and ensuring that there are clear outcomes for anti-fraud and corruption work.

4. The most significant achievements to date have been in the areas of strategy, anti-fraud culture and investigation. The council has adopted a strong policy, which is supported by senior management and promotes the full range of counter fraud activity. Internal Audit regularly provides fraud awareness information across the council using a variety of media and advice is routinely sought by management and staff alike. While the level of staffing has fluctuated, Internal Audit has been able to successfully respond to a significant increase in irregularities which has included working closely with Kent police.

5. As is to be expected for a team that is still relatively new, the assessment has identified that further work is required in order to fully meet CIPFA's recommended standards. Key themes include improving fraud risk assessments, measuring potential fraud losses across the authority, engaging stakeholders and measuring fraud awareness.

Irregularities

6. Detailed analysis of the irregularities recorded by Internal Audit during 2012/13 is provided in the Internal Audit Annual Report tabled earlier in the meeting. The following table summaries the irregularities received in 2013/14 as well as those brought forward from 2012/13. Summaries of the concluded irregularities are set out in Appendix A.

	Number of Irregularities
Brought forward at 1 April 2013	21
New referrals	4
Concluded in period	5
Carried forward at 27 June 2013	20

7. The 4 new irregularities comprised of 2 employee expenses frauds (ELS & E&E), 1 procurement fraud involving a grant (BSS) and one allegation of abuse of position for financial gain concerning parking permits (FSC). Three of these irregularities were reported by management, the fourth irregularity was reported by a member of the public.
8. As the year progresses, we will provide further analysis of irregularities by type and source in order to identify emerging themes and preventative action.

Recommendations

9. Members are asked to note:
   - the progress of anti-fraud and corruption activity; and
   - the assurance provided in relation to anti-fraud culture and fraud prevention/investigation activity.

Appendices

Appendix A **Summary of Concluded Irregularities**

Paul Rock
Counter Fraud Manager
Ext: 4694

Summary of Concluded Irregularities

Ref	Directorate	Allegation	Outcome
820	ELS	The former Business Manager of a school had been using the school purchase card to purchase items for her personal use.	• Evidence of fraud was identified and in conjunction with Kent Police the Business Manager was formally interviewed where she admitted various criminal offences. • After considering the facts, her previous good character and an absence of previous convictions the police recommended a conditional caution. • The conditional caution was administered and £4,662.32 was repaid.
853	FSC	Information was received that indicated a client in receipt of a personal budget had provided false information when submitting his financial assessment. It was suggested that the client owned the property he claimed he was renting.	• It was established that the client did own the property. • An overpayment of £6,123 was identified, pursued and recovered in full. • The client is no longer in receipt of a personal budget from the council. As a result of the above, and in accordance with the Crown Prosecution Service guidelines, the case was closed. • Internal Audit is currently undertaking a review of the policy and processes related to the financial assessments of personal budgets and this work will consider what (if any) action can be taken to minimise the risk of fraud.
863	C&C	Internal Audit received information that indicated the family members of a blue badge holder were inappropriately using their son’s blue badge without him being present at the time of use.	• The investigation established that some family members were using the badge inappropriately because they misunderstood the Blue Badge scheme. • Having explained the scheme a warning letter was issued.
865	C&C	Information from Kent Police revealed that a member of staff was abusing his position and making payments, via the BACS system, directly to himself, friends and his family.	• Internal Audit instigated a disciplinary investigation and the member of staff was dismissed for gross misconduct in January 2013. • Kent police pursued the criminal investigation and in May 2013 the member of staff was convicted and sentenced to 2 years in prison for an offence of Fraud by Abuse of Position with a value of £257,282. • Kent police are pursuing a confiscation order to recover the council’s losses.

Ref	Directorate	Allegation	Outcome
			• Internal Audit has reviewed the key financial controls within the service area and made a number of recommendations to reduce the risk of fraud in the future which have been accepted. • Internal Audit are currently undertaking a further follow up audit in the service area to provide assurance over all aspects of financial control and making recommendations as appropriate.
873	ELS	Allegations were received that a school had been misled into signing finance agreements for more photocopiers than they required by an intermediary company allegedly acting on behalf of the school and several finance organisations.	• The school resolved this issue locally with the supplier and now has the correct number of copiers at a reduced cost. • It was not possible to establish that the attempt to mislead the school was deliberate. As a precautionary measure the matter was reported to the police. This will allow similar incidents to be identified and linked as necessary.