

# Annual Governance Report

Kent County Council

Audit 2009/10

**25** June 2010

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## Status of our reports

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

- any director/member or officer in their individual capacity; or
  - any third party.
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Ladies and Gentlemen

## **2009/10 Annual Governance Report**

I am pleased to present the results of my audit work for 2009/10.

I discussed and agreed a draft of the report with the Director of Finance on 24 June 2010.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 13);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- note the recommendation to be discussed with officers (Appendix 5).

Yours faithfully

Darren Wells  
District Auditor

25 June 2010

# Key messages

This report summarises the findings from the 2009/10 audit which is substantially complete. It includes the messages arising from my audit of your financial statements, including the Superannuation Fund statements, and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

<b>Financial statements</b>	<b>Results</b>	<b>Page</b>
Unqualified audit opinion	Yes	7
Financial statements free from material error	Yes	7
Adequate internal control environment	Yes	12
<b>Value for money</b>	<b>Results</b>	<b>Page</b>
Adequate arrangements to secure value for money	Yes	13

## Audit opinion

- 1 My work on the 2009/10 financial statements is substantially complete. Outstanding items at the time of writing are detailed in paragraph 6. Subject to the satisfactory completion of my work I plan to issue an unqualified audit opinion on the financial statements in July 2010.

## Financial statements

- 2 The financial statements were submitted for audit on 10 June and were of a good quality. The audit has identified a small number of errors and omissions that officers have corrected within the accounts presented for members' approval on 30th June. For completeness these are recorded in Appendix 2, but none of these in my opinion need to be brought to your attention to assist you to fulfil your governance responsibilities.
- 3 I also consider the qualitative aspects of the financial statements. I identified weaknesses in the arrangements for seeking related party transaction declaration forms from officers and members and have made a recommendation to improve arrangements as set out in the action plan in Appendix 5.

## Value for money

- 4 I plan to issue an unqualified value for money conclusion on the arrangements the Council has in place for securing economy, efficiency and effectiveness in the use of its resources.

## Key messages

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### Independence

- 5 I have informed you any relationships between the auditor and Kent County Council and its senior management that might affect the auditor's objectivity and independence and any safeguards put in place. I confirm that we have complied with Accounting Practice Board's ethical standards and that we are independent and that our objectivity is not compromised.

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# Next steps

**This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**6** I ask the Governance and Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 7 to 13);
- approve the letter of representation on behalf of the Council before I issue my audit opinion and value for money conclusion (Appendix 3); and
- note the recommendation to be discussed with officers.

# Financial statements

**The financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

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## Opinion on the financial statements

- 7** I received the draft statement of accounts on the 10 June, five weeks after the end of the financial year which is a positive achievement. With the assistance of officers responding promptly to audit enquiries, I have completed the majority of planned work. Inevitably, given the tight timelines, there are some matters that remain to be completed. Key items outstanding at the time of writing this report (24 June) are:
- review of all related party transaction declarations from officers and members covering the main statements and the superannuation fund statements;
  - review of the Annual Governance Statement;
  - review of the PFI scheme assumptions and accounting entries;
  - sample testing of assets under construction;
  - confirmation of the Debt Management Office balance (awaited from Audit Commission);
  - review of investments and investment income of the Superannuation Fund; and
  - review of any amendments to the financial statements.
- 8** Whilst we do not expect that any of the outstanding matters will require material amendments to be made to the accounts, it would be prudent for the committee to agree appropriate delegated arrangements to consider any changes that should prove necessary.
- 9** Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
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## Errors in the financial statements

- 10** The audit of the Council's accounts seeks to ensure the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2009/10. Materiality is defined in auditing standards as:

"information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends

on the size of the item or error judged in the particular circumstances of its omission or misstatement."

- 11 I set the following materiality levels for the audit: the revenue account at £24.27 million; the balance sheet at £29.526 million and £14.427 million for the superannuation fund statement. I also set, under International Standards on Auditing, a threshold below which I judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial thresholds were set at £242,000 and £295,000 respectively for items affecting the Council's income & expenditure account and balance sheet and £144,000 for the superannuation fund.
- 12 During my audit I identified a small number of errors in the financial statements and reported these to management. These have been corrected. These are reported in Appendix 2 for completeness. None of these in my opinion need to be brought to your attention to assist you to fulfil your governance responsibilities. There are no unadjusted errors to bring to your attention.

**Key areas of judgement and audit risk**

- 13 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. I reported these in my Opinion Audit Plan to the Governance and Audit Committee in April 2010 and reported the Superannuation Fund potential risks to the Superannuation Fund Committee on 18 June.

**Table 1 Key areas of judgement and audit risk - Kent County Council**

Potential issue or audit risk identified as at 30 April 2010	Finding
<p><b>Payroll controls:</b> In previous years we have relied on a control over the process by which new starters become live records on the payroll system. With the introduction of the IDOX system, it is no longer possible for us to test this control for compliance.</p>	<p>I have tested compensating controls identified in the payroll system. This work did not identify any weaknesses and I was able to rely on the payroll system to produce accurate and complete data.</p>
<p><b>Kent Public Services Network:</b> I noted an error in the accounting treatment for the costs of this project which although not material in 2009/10 would accumulate into a material error over the period of the underlying contract. As a result of this, Revenue Expenditure Funded from Capital Under Statute (REFCUS) becomes a risk area for the opinion audit.</p>	<p>I agreed an amended accounting treatment with officers. My review of the financial statements confirms that the Council has correctly followed this.  I reviewed the expenditure treated as REFCUS and identified that a small number of transactions were incorrectly treated as capital. These are below the</p>



## Financial statements

Potential issue or audit risk identified as at 30 April 2010	Finding
<p>I also noted that a capital grant has been utilised to fund revenue expenditure in relation to the project which is allowed by CIPFA's Statement of Recommended Practice (SORP) but only in exceptional circumstances and that the accounting treatment had not been supported adequately.</p>	<p>triviality level. However, officers should be more rigorous in distinguishing between capital and revenue expenditure.</p> <p>I reviewed the Council's justification for taking the capital grant to revenue and confirm that this treatment is appropriate.</p>
<p><b>PFI accounting:</b></p> <p>With the implementation of the International Financial Reporting Standards (IFRS), PFI schemes have to be reviewed in 2009/10 and in many cases this will result in the assets coming onto the Council's balance sheet along with an appropriate finance liability. The calculations required are complex and the amounts are material.</p> <p>IFRS accounting requires the Council to consider whether any service concessions exist that may contain embedded leases.</p>	<p>This work is in progress.</p> <p>I have reviewed the Council's process to identify service concessions and tested this. I am satisfied that there are not any service concessions to be accounted for in 2009/10.</p>
<p><b>Collection Fund:</b></p> <p>There is a requirement in 2009/10 and going forward for the Council to show its share of accrued income in respect of its precepts. The accounting is complex and affects the income and expenditure account, balance sheet, cash flow statement and statement of recognised gains and losses. Accurate information is dependent on the co-operation of district and borough councils in Kent. A material error may arise if guidance is not followed properly.</p>	<p>I have reviewed the accounting entries and confirm that they are soundly based and the correct entries have been made in the financial statements.</p>
<p><b>Icelandic bank deposits:</b></p> <p>Over the past year the repayment of the Council's deposits in Icelandic banks have been revised. As a result, fair values and impairments for the outstanding deposits will need to be recalculated for inclusion in the accounts using the latest available information.</p>	<p>I have audited the deposits in Icelandic banks and confirm that the calculation of the fair values and impairments follows latest accounting guidance from CIPFA (Local Authority Accounting Panel Bulletin 82 -as revised).</p>

Potential issue or audit risk identified as at 30 April 2010	Finding
<p><b>Domiciliary care payments:</b></p> <p>I am aware of the ongoing issues within the systems used for payment of domiciliary care contracts and the work being done by officers to resolve them. Whilst this does not constitute a risk of material mis-statement in the financial statements, there is a significant degree of uncertainty in the year end position.</p>	<p>I have reviewed the entries in the financial statements in respect of domiciliary care payments. Although there are ongoing issues within the systems, I am satisfied that officers have undertaken sufficient work to determine a reliable estimate for the year end creditor.</p>
<p><b>East Kent Opportunities (EKO) LLP:</b></p> <p>Draft accounts for this joint arrangement were not prepared within the Council's closedown timetable for the 2008/09 financial statements. There is a risk if the LLP 2009/10 accounts are not available, that the Council's accounts may not accurately reflect the joint arrangement.</p>	<p>I have received the draft 2009/10 EKO LLP accounts. I have reviewed the entries within the Council financial statements and confirm that they have made the appropriate entries for the joint arrangement.</p>
<p><b>VAT partial exemption limit:</b></p> <p>The Council has come very close to breaching the partial exemption limit of 5 per cent. Breaching that limit could result in a material financial liability for the Council.</p>	<p>I have reviewed the VAT partial exemption calculation and confirm that the Council has not breached the 5 per cent limit.</p>

**Table 2 Key areas of judgement and audit risk - Kent Superannuation Fund**

Potential issue or audit risk identified as at 30 April 2010	Finding
<p><b>Contributions:</b></p> <p>With effect from 1 April 2008 employees' contributions to the Local Government Pension Scheme are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be paid to the Superannuation Fund at the right rates and that this could result in a material</p>	<p>I reviewed the systems and processes put in place to ensure that contributions from participating employees' contributions were being collected at the right rates. I did not find any errors or weaknesses in the systems and processes.</p>

## Financial statements

Potential issue or audit risk identified as at 30 April 2010	Finding
misstatement to the financial statements.	
<p><b>Internal controls at fund managers and custodians:</b></p> <p>The Superannuation Fund out-sources services to fund managers and custodians. Procedures are needed to ensure that reliance can be placed on the accuracy and completeness of the information provided such that where it is used to produce the Fund's financial statements it supports a true and fair view of the financial position of the Fund at year end.</p>	<p>I have assessed the actions taken by the Council to place reliance on the Statement on Accounting Standards (SAS) 70 reports. I confirm that officers review the internal control reports provided by fund managers. Officers will report on an exception basis to the Superannuation Fund Committee if weaknesses are identified.</p>
<p><b>Derivatives:</b></p> <p>The accounting for derivatives can be complex and is driven by the details of each contract.</p>	<p>I have obtained an understanding of the contracts and confirm that the accounting treatment adopted is appropriate.</p>
<p><b>Valuation of unquoted and private equity investments:</b></p> <p>There are no formally quoted prices so the valuation needs to be based on appropriate techniques relevant to the individual investments held.</p>	<p>I have reviewed the basis of valuation and confirm that they are reasonable.</p>

## Accounting practice and financial reporting

- 14 I consider the non-numeric content of your financial reporting. Table 3 contains the issues I want to raise with you.

**Table 3**

Issue or risk	Finding
<p>Related party transactions: Under International Standard of Auditing (UK&amp;I) 550 'Related Parties' I am required to consider the adequacy of control activities over the authorisation and recording of related party transactions.</p>	<p>Last year I identified scope for strengthening the arrangements for obtaining related party transactions declarations from members and senior officers.</p> <p>This year's work has identified some gaps in the completeness of returns:</p>

Issue or risk	Finding
	<ul style="list-style-type: none"> <li>• Related party declarations were not sought from the three other local authority representatives on Kent Superannuation Fund Committee;</li> <li>• Two declarations are unsigned;</li> <li>• Two are not dated; and</li> <li>• Three declarations were from the previous year.</li> </ul> <p>Although the declarations feed a non-material note to the financial statements I am unable to issue an audit opinion until these issues are resolved. The declaration process should be strengthened to make it clear that the returns should be received from members of Kent County Council and Kent Superannuation Fund by the middle of May each year.</p>

**Recommendation**

**R1** The Council needs to improve the arrangements for making related party disclosures.

**Important weaknesses in internal control**

**15** A material weakness in internal control is a deficiency in design or operation which could adversely affect the Council's ability to record, process, summarise and report financial and other relevant data. I have not identified any weakness in the design or operation of internal controls that might result in a material error in your financial statements of which you are not aware.

**Letter of representation**

**16** Before I issue my opinion, auditing standards require me to ask you to approve the letter of representation about your financial statements and governance arrangements before management formally sign the letter. Appendix 2 contains the draft letter of representation.

# Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

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## Value for money conclusion

- 17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5.
- 18 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft conclusion.

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# Glossary

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## Annual governance statement

Governance is about how local government bodies ensure that they are 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, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

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## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

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## Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

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## Qualified

The auditor has some reservations or concerns.

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## Unqualified

The auditor does not have any reservations.

### **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Appendix 1 – Draft Independent auditor’s report to Members of Kent County Council

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## **Opinion on the Council’s accounting statements**

I have audited the accounting statements and related notes of Kent County Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of the Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

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## **Respective responsibilities of the Director of Finance and auditor**

The Director of Finance’s responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts. My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year.

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Council’s corporate governance procedures or its risk and control procedures.

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I read other information published with the Council’s accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Council’s accounting statements. My responsibilities do not extend to any other information.

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### Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

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### Opinion

In my opinion the Council’s accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

#### Opinion on the Superannuation Fund accounts

I have audited the Superannuation Fund accounts for the year ended 31 March 2010 under the Audit Commission Act 1998. The Superannuation Fund’s accounts comprise the Fund Account, the Net Assets Statement and the related notes. The Superannuation Fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

#### Respective responsibilities of the Director of Finance and auditor

The Director of Finance is responsible for preparing the Superannuation Fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing the Superannuation Fund accounts the Director of Finance is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the Superannuation Fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Superannuation Fund accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year and the amount and disposition of the Fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Superannuation Fund Annual Report, is consistent with the Fund accounts. That information comprises [list to be inserted].

I read other information published with the Superannuation Fund accounts and related notes and consider whether it is consistent with the audited Superannuation Fund accounts. This other information comprises the remaining elements of the Superannuation Fund Annual Report which are [list to be inserted]. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Superannuation Fund accounts and related notes. My responsibilities do not extend to any other information.

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### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Superannuation Fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the Superannuation Fund accounts and related notes, and of whether the accounting policies are appropriate to the Fund’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Superannuation Fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Superannuation Fund accounts and related notes.

### Opinion

In my opinion:

- the Superannuation Fund accounts and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Superannuation Fund during the year ended 31 March 2010, and
- the amount and disposition of the Fund’s assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year: and
- the information given in the commentary on financial performance included within the Superannuation Fund Annual Report is consistent with the Fund accounts.

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### Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Council’s responsibilities

The Council 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 regularly to review the adequacy and effectiveness of these arrangements.

#### Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009 and the supporting guidance, I am satisfied that, in all significant respects, Kent County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

**Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

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# Appendix 2 – Amendments to the draft accounts

I identified a small number of misstatements during my audit and managers have made the following adjustments.

**Table 4**

Adjusted misstatements	Nature of adjustment
Balance sheet : Debtor / Long term debtor	A debtor set up for asylum seekers includes £900k that is classified as being owed within one year. The Home Office has indicated that this will not be paid until 2011/12 so it has now been reclassified as a long term debtor.
Balance sheet : Note 15 - Movement on fixed assets	The implementation of International Financial Reporting Interpretations Committee (IFRIC) 12 required Private Finance Initiative (PFI) assets to be recognised on the balance sheet. An adjustment of £6 million related to Swanscombe PFI school was put through the balance sheet but note 15 to the accounts had not been amended to reflect the adjustment. This amendment has now been made.
Note 15 - Movement on fixed assets	Assets under construction contained two items, £1,195k and £2,262k, that should have been transferred to operational headings on completion. These items suffered impairment but note 15 to the accounts did not accurately reflect these events. The note has now been amended.
income and expenditure account, Balance sheet and other statements: Gains and losses on fixed assets	The Council treats unconditional deposits on fixed asset sales as gains in the year in which they are received. These should instead be held on the balance sheet as receipts in advance until the sale is completed so that the gain or loss on disposal can be accurately disclosed in the correct year. I identified errors in-year arising from the incorrect treatment where gains on disposal were overstated by £7,289k and losses on disposal (related to a

## Appendix 2 – Amendments to the draft accounts

	<b>deposit received in the previous year) were overstated by £3,175k.</b>

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# Appendix 3 – Draft letter of representation

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To: Darren Wells  
Appointed Auditor

Audit Commission  
16 South Park  
Sevenoaks  
Kent  
TN13 1AN

## **Kent County Council - Audit for the 2009/10 year ended 31 March 2010**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors and officers of Kent County Council, the following representations given to you in connection with your audit of the Council's financial statements for the 2009/10 year ended 31 March 2010. All representations cover the Council's accounts and Superannuation Fund accounts included within the financial statements.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council and Superannuation Fund for making accurate representations to you.

### **Supporting records**

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council and Superannuation Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Superannuation Fund Committee meetings, have been made available to you.

### **Irregularities**

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.  
There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council or Superannuation Fund.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and



### Appendix 3 – Draft letter of representation

no financial guarantees have been given to third parties.

#### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

#### Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events have occurred which would require additional adjustment or disclosure in the financial statements or Superannuation Fund accounts. The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Kent County Council

I confirm that the letter has been discussed and agreed by the Governance and Audit Committee on 30 June 2010.

Signed

Name

Position

XX July 2010

# Appendix 4 – Value for money criteria

Criteria	Met
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes

## Appendix 5 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
<b>Annual Governance Report 2009/10 - Recommendations</b>						
11	The Council needs to improve the arrangements for making related party disclosures.	3	Director of Law and Governance			

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# The Audit Commission

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

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

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

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