

Annual Audit Letter

Kent County Council

Audit 2009/10

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 15).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements 2009/10

1 I issued an unqualified opinion on the Council's financial statements including the Kent Superannuation Fund on 30 July 2010. The financial statements were presented for audit nine weeks after the end of the financial year which is a positive achievement and one of the earliest in local government. The quality of the statement of accounts was good.

2 The Council is making good progress in its preparations to report its financial position as of 31 March 2011 under the requirements of international financial reporting standards.

Value for money

3 I concluded that in all significant respects, the Council has appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources in 2009/10. I issued an unqualified value for money conclusion on the 30 July 2010.

4 As part of my audit I have looked at some payments to senior officers on their departure from the Council. I concluded the payments themselves were not unreasonable in the legal sense and were within a range that the Council has the statutory power to pay. I also concluded that the consideration of value for money was not adequately documented. I have made some recommendations to improve the governance arrangements covering such payments.

5 Under government plans, local authorities will have a greater role in public health. Health inequalities exist across Kent and joint working is needed to tackle those that exist. Tackling health inequalities absorbs huge amounts of public money. Last year I assessed the progress made by the Health and Well Being Boards (organised along district boundaries). This year, I have considered the progress made by these Boards against their improvement action plans. I concluded the HWBBs have begun to prioritise resources to the most vulnerable, but there is insufficient information to judge the value for money of the resources employed. Also not all partnerships have fully engaged with community and voluntary sector groups or parish councils, so they have yet to secure the help of all the agencies that could engage in reducing health inequalities.

Current and future challenges

6 The economic downturn is having a very significant impact on public finances, with fundamental challenges to public sector bodies to fund service delivery and capital programmes. The Council estimates a budget gap of some £330 million over the next four years. The Council has a good track record of delivering efficiency savings although not of the scale required in the current climate.

7 Members have set out a new medium term strategy, Bold Steps for Kent, to transform services; its engagement with others and to reduce spending. Allied to this is a planned internal restructuring to support the new priorities. The financial environment, the internal restructuring and the need to maintain quality services for the most vulnerable present a challenging agenda. I will continue to consider how the Council mitigates the risks it faces over the coming year.

Financial statements and annual governance statement

The financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 July 2010.

Key opinion findings

8 The draft financial statements were available for audit on 10 June 2010, five weeks after the end of the financial year, which is a positive achievement. Officers responded quickly to audit enquiries and I gave an unqualified audit opinion on the Council's and Kent Superannuation Fund's accounts on 30 July 2010.

9 I summarised the key findings from my work in my annual governance report which I presented to the Governance and Audit Committee on 30 June 2010, and represented in September. The financial statements were of a good quality. My audit identified a small number of errors and omissions that officers corrected within the adopted accounts. There were a small number of errors that were not adjusted for. These did not affect my audit opinion.

10 Last year I identified scope for strengthening the arrangements for obtaining related party transactions declarations from members and senior officers. My work this year identified some gaps in the completeness of returns. This remains an area for future improvement.

11 I did not identify any significant weaknesses in your internal control arrangements.

Icelandic bank investments

12 The Council had £50.3 million, including £16.3 million relating to Kent Superannuation Fund and £1.8 million deposited on behalf of Kent and Medway Fire and Rescue Authority, placed with Icelandic banks when they collapsed in October 2008. It is still exposed to an element of uncertainty regarding the return of these investments. In its financial statements for 2009/10 the Council impaired these funds in line with the latest guidance from CIPFA. I confirmed that the fair values and impairments for the outstanding deposits shown in the Council's accounts are in accordance with the guidance.

International Financial Reporting Standards

13 From 2010/11 the Council's financial statements will be based on International Financial Reporting Standards (IFRS). The transition to IFRS has proved problematic for the private sector due to extra reporting demands. Early preparation is vital to successful implementation of the new standards. Restating the 2009/10 financial statements is a key stage in moving to IFRS compliant accounts in 2010/11.

14 The Council started its preparation early last year by identifying the major changes to financial reporting caused by IFRS, training key staff and establishing a project plan. The Council made good progress during the year to identify the changes required to produce IFRS compliant financial statements. Officers completed the 2009/10 changes to accounting for Public Finance Initiative (PFI) schemes introduced from 1 April 2009. The main area of challenge for the Council is to consider its lease arrangements that are devolved across departments and schools. A central record of all known leases has now been created and officers are working to review all leases. The Council plans to complete the restatement of its 2009/10 financial statements by December 2010. We will continue to work with the Council during the re-statement exercise.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the VFM conclusion.

2009/10 use of resources assessments

15 At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

16 However, I am still required by the Code of Audit Practice to issue a VFM conclusion for 2009/10 and I have used the results of the work completed on the use of resources assessment up to the end of May 2010 to assist me.

VFM conclusion

17 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

18 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural resources	Not assessed *
Strategic asset management	Not assessed *
Workforce	Yes

* assessed in 2008/09.

19 I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

20 Key findings from my review are set out below.

Managing finances

21 The Council plans its finances effectively to deliver its strategic priorities and secure sound financial health. Financial and business planning are integrated well with many examples of shifting resources to match priorities. The Council can show how its integrated planning enables innovative methods of delivering services within available resources. Capital investment is well managed over many years and closely aligned to priorities. Medium term financial planning is set over a three year rolling period. It is based on reasonable assumptions and appropriately includes scenario planning and sensitivity analysis of holding balances and reserves against council tax levels. Risk management and financial planning are linked. The Council engages well with local communities and its partners when developing services and financial plans. Members and chief officers provide strong leadership.

22 The Council has a sound understanding of its costs and performance across its services. This provides a solid foundation to tackle the scale of efficiencies that are required in the current economic climate. There is a good history of achieving efficiencies through smarter procurement, collaboration with others and through improvements to business processes. Investment and disinvestment decisions are based on whole life costing and the Council is adept at getting external funding to deliver community based projects. All of this contributes to low levels of council tax increases.

23 The Council's financial reporting is timely, reliable and meets the needs of staff, stakeholders and local people. The Council has high-quality internal financial monitoring and transparent reporting developed in consultation with budgetholders and members. Budgetary control is strong, flexible reporting tools allow quick and effective management action to address variances. The Council has a long record of financial outturn close to annual budgets. Its annual financial statements are produced early, and with the availability and responsiveness of finance staff, an early unqualified audit opinion is issued. The Council undertakes wide consultation and externally reports information using various methods that meet user requirements.

Governing the business

24 My work has confirmed the Council continues to commission and buy quality services and supplies that meet local needs and deliver sustainable outcomes. This year, I reviewed the management of PFI contracts and found appropriate, effective arrangements in place (paragraph 51). Procurement guidance provides a clear framework for decision making including evaluation criteria. The Council has a track record of using IT innovatively to improve services to the public. For example, telehealth and telecare. As at January 2010, the Council reports that there were 1,134 people on telecare and 783 on telehealth. It is now working to mainstream this service.

25 The Council produces relevant and reliable data and information to support decision making and manage performance. Its data quality strategy provides a clear framework setting out individuals' responsibilities. There are robust arrangements in place for the security of data with independent provision and checks to validate information. My work has not identified any weaknesses over data quality. Performance management is at the heart of the Council. It has recently begun to publish on its internet, internal management information reports, setting out the Council's performance quarterly for the public's information.

26 The Council promotes and demonstrates the principles and values of good governance. For example, my involvement in the transfer of learning disabilities properties from the NHS to the Council has confirmed the appropriateness of governance arrangements (paragraph 49). There are strong relationships between officers and members and a well established ethical framework. Where it becomes aware of any weaknesses, it acts to address them. For example, producing a compromise agreement protocol (paragraph 35). Governance arrangements are clear for significant partnerships.

27 The Council continues to manage its risks and maintains a sound system of internal control. The risk management arrangements are integrated in corporate and service-level business planning processes, including at a strategic partnership level. The Council reacts quickly to emergencies and has robust preventive schemes. Fraudulent activity is proactively monitored and investigated with results widely published. The Governance and Audit Committee is strengthening its arrangements to increase members' ability to challenge governance risks.

Managing resources

28 The Council continues to make progress against its sustainability and climate change agenda. Its annual report to members highlights some positive progress, for example in reducing council business miles and its community leadership on this agenda. However, against a baseline of 2004, its carbon emissions are increasing. Some of this is attributed to extended use of ICT and longer school days. Driving energy efficiency and carbon reduction in buildings and compliance with the Carbon Reduction Commitment have been agreed as a current year priority.

29 The Council manages its asset base effectively to help deliver its strategic priorities and service needs. It has a clear strategic approach set out for making effective use of and maintaining all its assets. The Property Enterprise Fund has been successful in disposing of non-operational property to make acquisitions in line with the Council's regeneration agenda. Value for money has been achieved through the Better Work Places Programme, rationalisation of highways depots and the Gateway initiative. As part of its medium term financial strategy, the Council has set a target of some £10m savings to be realised from better asset management.

30 The Council is coping well with its workforce needs. It is addressing its ageing workforce by employing more young people. For example, 290 starts on its Apprenticeships Programme and 85 starts on its Gap Year Programme. Jobs filled by the under 30s has increased from 15.1 to 16.8 per cent. The Council manages workforce gaps well. Vacancy rates are less than 6 per cent (nationally: 9.4 per cent). Over two thirds of vacancies are filled externally. A combined career grade for Social Workers, Occupational Therapists and Nurses has improved recruitment and retention of staff in difficult to recruit areas, although social worker vacancies still exist. New

approaches to recruiting staff has reduced advertising costs, from £1.5 million to £0.5 million and reduced the time to recruit by four days.

31 The Council has a range of methods to develop highly qualified staff, such as the 'Emerging Leaders' and 'Young People's Talent Programme.' It seeks to ensure that staff are motivated and healthy. Sickness absence has reduced by 40,000 days last year through better monitoring and challenge and in the last year, staff turnover has reduced from 15 per cent to 12 per cent. The Council has achieved level 3 in the Equality Standard and is targeting 'excellent' under the new scheme. There are some weaknesses in its workforce arrangements as described at paragraphs 34 and 52.

Risk-based reviews

Payments to senior officers

32 As part of my audit I have looked at some payments to senior officers on their departure from the Council. In some cases, the payments have been reported in the local press and attracted public concern at their scale and value. My role is to consider the adequacy of the Council's governance arrangements, that is, are the payments within the Council's powers and is the decision the Council made 'reasonable'; is decision making clear and appropriate and has value for money been considered? In assessing legality I have used my own legal advisers to help me.

Severance payments

33 The Council like many other local authorities seeks to terminate the employment of senior managers occasionally. This can be for a variety of reasons and the nature of the termination can have a direct effect on employee entitlements. Given this, it is important to be clear about the reason for the termination. In some cases the Council enters into a compromise agreement which is a legally binding agreement made between it and an employee. Under such agreements, the employee agrees not to pursue particular claims in relation to his or her employment or its termination, in consideration of, usually, a financial settlement provided by the Council.

34 I have reviewed five severance agreements and concluded that the payments themselves were not unreasonable in the legal sense and were within a range that the Council has the statutory power to pay. I also concluded that the consideration of value for money was not adequately documented. I identified a number of recurring weaknesses in the Council's arrangements.

- A lack of effective performance management of staff was cited as a contributory factor in reaching some agreements and the payments were higher as a result.
- Documentation did not always clearly evidence how payments were negotiated and where discretionary enhancements were agreed there is little written evidence of the Council's reasons.

- There was limited evidence, to show that the Council assessed the relative strength of individual legal claims against it and that the payments made achieved the best/lowest settlement for council taxpayers.
- Decision making reports to members did not always provide a full, balanced view of the circumstances of individual cases.

35 I reported my findings to the Council in January 2010 and note that it has revised its arrangements. It has reconsidered performance management arrangements for senior staff and adopted a protocol for the management and agreement of compromise agreements. The protocol strengthens the governance arrangements by setting out those senior officers that should be consulted; clarifies the decision making 'chain' and makes clear that the value for money of individual agreements should be explicitly documented. The protocol also provides that where a proposed agreement concerns a Chief Officer or an M-Grade Manager, the Director of Finance will consult with the external auditor to 'deal with any objections which may otherwise prevent the agreement from being finalised.' This does not involve the auditor in the decision making arrangements of the Council, but informs the Personnel Committee of any audit concerns before a decision is made.

36 In June 2010, I became aware of a planned compromise agreement for an M grade officer. I was sent some documentation in July on which I raised a number of critical questions with the Director of Personnel & Development about the governance of the proposal, apparent non adherence with the Council's protocol and the achievement of value for money. I received a response to my queries on the 18th November 2010. This delay has hindered my review of this case and I consider the time taken to reply to my queries to be poor practice. I will review the papers provided in response to my questions and where appropriate, bring any concerns to members' attention.

Recommendations

- R1** Apply the compromise agreement protocol in all applicable circumstances.
 - R2** Document compromise agreements fully as part of management records. This should include negotiations with employees and/or their representatives; justification for any discretionary enhancements and the assessment of the relative strength of individual legal claims against the Council.
-

Payment to previous chief executive

37 In February 2010 it was reported in the local press that the previous chief executive would receive £200,000 after payment of tax and national insurance on leaving the Council in May 2010.

38 The chief executive was employed on a fixed term contract to May 2007 with an option to extend the contract term to May 2009. Leading members wanted to keep the chief executive and he was willing to continue in post, subject to recognition of the long term financial affect on his future pension entitlement caused by the April 2006 changes to the local government pension scheme and associated taxation. The pension scheme and the associated tax changes were complex and the Council obtained actuarial advice to determine the financial impact on the chief executive if he extended his contact. The Director of Personnel & Development reported that £200,000 represented the difference between the chief executive's projected pension entitlements should he not extend his contract and those if he did. A report was presented to the Personnel Committee in September 2006 recommending a payment of £200,000 after tax and N.I deductions.

39 The payment made to the chief executive was within the powers available to the Council and was not in my opinion, so unreasonable that no council acting reasonably would make this decision. Appropriate expert advice from an actuary was taken into consideration. The payment did not enhance the chief executive's remuneration package, but protected him from the impact of national changes to the pension scheme. Whilst this might be considered generous by some, as evidenced by public reaction to local press coverage, this in itself does not make the payment unlawful.

40 Effective decision making and good governance requires decision makers to be presented with appropriate and sufficient information to make an informed decision. The report to the Personnel Committee in this instance fell short of those standards. The report was very brief and concentrated on the decision for members to agree the payment of £200,000 rather than the detailed reasons behind the need to pay. It did not: set out the full cost to the Council of the £200,000 payment (£408,000 including income tax and NI); explore alternative options or evaluate the value for money of the recommended approach; and it was not shared in advance with the Director of Finance to offer any commentary on the financial information.

Recommendation

R3 Decision making reports should provide a full, balanced picture of the circumstances and record the options available and document the consideration of value for money of the recommended decision.

Health inequalities

41 Health inequalities exist across Kent and joint working is needed to tackle those that exist. Some groups of the population suffer from significantly greater ill-health (morbidity) and earlier death (mortality) than the average and other groups of the population. The expression - health inequalities – although describing the health of the individual, relates also to circumstances that lead to differing levels of health. It is caused by the interrelationship of factors such as worklessness, low educational achievement, poor housing, bad diets, and living in a high crime area.

42 Tackling health inequalities absorbs huge amounts of public money in both the local government and health sectors. Last year I assessed the progress made by the Health and Well Being Boards (organised along district boundaries). My findings and an action plan for improvement were issued to all bodies involved in the review. This year I have assessed the progress made by the Health and Well Being Boards (HWBB) against their action plans.

43 I found that each partnership had updated the action plans and could demonstrate positive learning from adopting the action plans. That said, it was difficult in most cases to see the difference the partnerships had made to local people.

44 The HWBBs have begun to prioritise resources to the most vulnerable. For example, in Maidstone the national project 'Change4Life' has increased levels of participation in healthy activities by some of the most vulnerable people and created monitoring data. More partnerships are now using the health and social care maps to help target resources and continuity of membership is better. There are new resources such as Healthy Living Co-ordinators, family weight management programmes, and healthy living advice for businesses.

45 On the other hand, there was a lack of targets in the updated plans. There was insufficient information to judge the value for money of the resources employed. Also not all partnerships have fully engaged with community and voluntary sector groups or parish councils, so they have yet to secure the help of all the agencies that could engage in reducing health inequalities.

46 The Council will be aware of the significant change in health responsibilities and budgets taking place across public services. It is expected that the white paper on public health by the end of the year will promote a stronger role for local authorities. Demonstrating outcomes is a key feature of the planned reforms. This means that the partnerships will have to be clear what outcomes for local people are needed and ensure that improvements are measured and delivered and demonstrate value for money.

47 I reported my findings to Kent's Public Health Board on 12 November 2010.

R4 That the Council, in its future involvement with partnerships on health inequalities, ensures that such partnerships are clear what outcomes for local people are needed and that improvements are measured, delivered and demonstrate value for money.

Adults with learning difficulties

48 On 1 April 2009, responsibility for learning disability social care funding and commissioning transferred from the NHS to local authorities. The proposal is part of the wider transformation of adult social care set out in 'Putting People First' that seeks to bring clear benefits to people with a learning disability. Local authorities are best placed to deliver quality, targeted services, which place the individual at the heart of service provision, based on their experience and their lead responsibility for community services. Primary care trusts (PCTs) are to focus on their responsibility of commissioning care to meet the health needs of adults with a learning disability which includes specialist services such as community nurses and speech and language therapists. For 2009/10 and 2010/11, the transfer of specialist social care funding for adults with learning disabilities is being undertaken by local agreement between PCTs and local authorities. After this the Department of Health will fund local authorities although the basis of funding is yet to be determined.

49 In my last annual audit letter I stated that the Council had worked well with East and West Kent PCTs to ensure a properly controlled transfer of responsibilities whilst always maintaining a focus on those with learning disabilities. I have continued to attend regular joint meetings between the PCTs and the Council during 2010. Discussions and planning around strategic finance show that risks are being effectively managed in an open and professional manner despite funding uncertainties. There are no matters for me to report.

Arrangements for managing Private Finance Initiative contracts and Building Schools for the Future

50 The Council has contracted with private sector partners to design, build, finance and operate facilities under the Private Finance Initiative (PFI). These schemes are long-term, usually lasting 25 years or more, and give rise to large financial commitments. I considered the Council's arrangements for managing such contracts. The main PFI schemes are:

- the Grouped Schools and Swanscombe PFI schemes;
- the Building Schools for the Future (BSF) initiative, which includes rebuilding three schools using PFI;
- two housing PFI schemes: Better Homes, Active Lives and Excellent Homes for All; and
- two integrated social and health service PFI schemes, one managed by the Council (West View and Westbrook) and the other by West Kent PCT (Gravesham Place).

51 Arrangements for managing PFI contracts are satisfactory with effective processes in place for:

- checking that contractors have delivered the required outputs and achieved the performance claimed;
- checking the financial impact of schemes;
- identifying, monitoring and reporting potential risks; and
- considering and approving changes to contracts.

52 In common with other public bodies the Council relies on a few key staff to manage the schemes. I found limited evidence of succession planning which coupled with a lack of comprehensive written procedures, increases the risk to the Council should it loses these key staff with their detailed knowledge and experience of managing the schemes. The Council should consider if its proposed corporate restructuring will mitigate this risk (paragraph 65).

53 Plans were made under BSF to rebuild and refurbish 35 secondary schools across Kent. Work on the first group of 12 schools was approved under BSF Wave III and is nearing completion. However, in July 2010 the government announced a review of BSF but did confirm that two schools, Skinners' Academy and Sheppey Academy, could progress. All of the Council's other BSF plans are now on hold although a request has been made for the approval of the planned schools in Gravesham and Thanet. The Council is aware that it may incur costs due to the cessation of the BSF programme.

Approach to local value for money work from 2010/11

54 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to this work.

55 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

56 I will determine local VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my work. Instead I will report the results of all my work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

57 Councils are facing significant financial challenges. Demand for local services is increasing due to demography, particularly an ageing population, and the effects of the recession, such as on school places and social care. This increase in demand for services is set against a backdrop of a harsh financial environment; significant cuts in government funding and reducing income from investment income, fees and charges.

Financial standing

2010/11

58 The Council agreed its 2010/11 budget and Medium Term Plan 2010/13 on 18 February 2010. In June 2010, the government announced in-year reductions to government grants for 2010/11. The Council anticipated these announcements and responded quickly to revise its budgets, reporting possible cuts to the Cabinet on 14 June 2010. The overall impact of the grant reductions on the revenue budget was £9.54 million and £4.65 million capital.

59 The Leader agreed the revised budget under urgency rules on 17 June 2010. This included calling on earmarked reserves as a short-term solution. At 31 March 2010, the Council had general reserves of £25.835 million and earmarked reserves of £115.884 million (excluding schools reserves). The general fund balance is comparable to similar authorities and reflects the Council's intention not to hold excessive balances but use funds in the delivery of services, having confidence that directorates deliver their financial targets. The earmarked reserves will provide a short-term buffer and flexibility in securing a stable annual financial position. However, the Council will need to assess the level of general fund reserves it thinks prudent to respond to the financial challenges it faces.

60 The latest Cabinet financial monitoring report for 2010-2011 (11 October) shows budget pressures before management action of £2.0 million and a projected underspend of £0.72 million for the year after management action. This is an encouraging position at this point of the financial year.

2011/12 onwards

61 The government announced its Comprehensive Spending Review on 20 October. This includes significant reductions in local government funding:

- 28 per cent reductions in Revenue Support Grants (excluding schools) by 2014/15;
- 45 per cent reductions in capital funding from central government; and
- 0.1 per cent real term increases in schools funding each year.

62 The full impact of this is still emerging and may only become fully clear when grant allocations are announced in December 2010. However, for planning purposes, the Council expects the impact of funding cuts and spending commitments to create a budget pressure of some £330 million over the next four years.

63 The Council has a good track record of delivering efficiency savings; however, these have not been of the scale required in the current climate. The Council will be unable to achieve this quantum of savings through management efficiencies alone, but will need to consider and make decisions on the design, management, delivery and availability of services. For planning purposes, the Council believes that approximately half of the total estimated savings required over four years can be met from improved efficiency and service redesign, but the balance will require policy changes on the scope and quality of services provided. This planning assumption is being reviewed regularly. The Council has launched its 'Your voice, your services' campaign to identify the services which matter the most to its residents and businesses and to obtain views on other potential savings.

64 Changes to the scope or cessation of services will be sensitive. The Council has recently consulted on its medium term plans for the next four years, 'Bold Steps for Kent'. This sets out a strategic vision for its priorities; its engagement with service users and residents and new ways of working with central government, local public sector partners, businesses and the voluntary sector. It provides a framework for making some difficult decisions on future service delivery. The vision will be supported by a revised medium term financial plan.

65 The Council has also set out plans for an internal restructure to ensure the organisation is better able to support the new ways of working envisaged in its strategic vision. Consultation has begun on a restructure of senior management arrangements. From my discussions with officers, I am aware that the Council is making progress in identifying areas to make its required savings. A programme office has been established to co-ordinate the savings programme across the Council once a final programme has been agreed by members. These changes together present a challenging agenda and the Council will need to ensure that sufficient senior management continuity and capacity is in place to deliver its plans whilst maintaining the quality of services, particularly to the most vulnerable of society.

66 I will continue to monitor the Council's financial position and delivery of savings throughout the 2010/11 audit.

Closing remarks

67 I have discussed and agreed this letter with the Group Managing Director. I will present this letter at the Governance and Audit Committee on 30 November 2010 and will ask for copies to be supplied to all Council members.

68 Full detailed findings, conclusions and recommendations in the areas covered by my audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	30 June 2009
Opinion Audit Plan	30 April 2010
Annual governance report	30 June 2010

69 The Council has taken a positive and helpful approach to our audit. I wish to thank officers and members for their support and cooperation during the audit.

Darren Wells
District Auditor
November 2010

Appendix 1 Audit fees

The table below sets out the actual and proposed audit fees in relation to the 2009/10 audit year.

	Actual	Proposed	Variance
Financial statements and annual governance statement	260,490	260,490	0
Value for money	117,280	117,280	0
Total audit fees	377,770	377,770	0

Appendix 2 Glossary

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, 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 local government body 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.

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.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

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 money, people and time.

Appendix 3 Action plan

Recommendations

Recommendation 1

Apply the compromise agreement protocol in all applicable circumstances.

Responsibility

Priority

Date

Comments

Recommendation 2

Document compromise agreements fully as part of management records. This should include negotiations with employees and/or their representatives; justification for any discretionary enhancements and the assessment of the relative strength of individual legal claims against the Council.

Responsibility

Priority

Date

Comments

Recommendation 3

Decision making reports should provide a full, balanced picture of the circumstances and record the options available and document the consideration of value for money of the recommended decision.

Responsibility

Priority

Date

Comments

Recommendation 4

That the Council, in its future involvement with partnerships on health inequalities, ensures that such partnerships are clear what outcomes for local people are needed and that improvements are measured, delivered and demonstrate value for money.

Responsibility

Priority

Date

Comments

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