Annual governance report

Kent County Council

September 2011 (updated)

Contents

Traffic light explanation

■ Red ◆ Amber ● Green

Key messages

This report updates the Annual Governance Report that was presented to the Governance and Audit Committee on 30 June 2011 for issues that arose in completing the work for the audit opinion on the 2010/11 financial statements.

It includes the messages arising from my audit of your financial statements, which include the Kent Superannuation Fund Accounts, and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Traffic light
Unqualified audit opinion	
Adequate arrangements to secure value for money	

Audit opinion and financial statements

I issued an unqualified audit opinion on the 2010/11 financial statements on 26 July 2011.

On 30 June 2011, I reported the results of my opinion audit to the Governance & Audit Committee. With the help of officers responding quickly to audit enquiries, I had completed most of my planned work by this date. Inevitably, given the tight timelines, there were a few items that were still being reviewed. As agreed by members, I wrote to the Committee Chair, copied to the Liberal Democrat Committee member on 25 July 2011, with the results of these outstanding matters, inviting him on behalf of the Committee to ask officers to amend the accounts for a few errors identified. Given the nature and size of the errors, the Council decided not to amend the accounts that were approved by the Governance & Audit Committee on the 30 June. For completeness, I now report all the issues arising from the audit of the financial statements. Issues not previously raised in my report of 30 June, are shown in italics in this report for easy identification.

The financial statements submitted for audit on 10 June 2011 were of a good quality. The Council did well to produce complete accounts within this short timescale as the requirements of International Financial Reporting Standards means they are significantly more complex. During the audit I identified a small number of errors in the financial statements. Management agreed to adjust the financial statements for all but two of the errors.

Value for money

I issued an unqualified value for money conclusion on the arrangements Kent County Council has in place for securing economy, efficiency and effectiveness in the use of its resources on 26 July 2011. However, the Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Such a matter is the findings from the Ofsted inspection of the Council's safeguarding children and young people services and services for looked after children.

Matters of interest

I confirm to you

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including Ethical Standard 1 (revised) - Integrity, Objectivity and Independence. I identified the following threat to independence:

- *One member of the audit team has immediate family employed at the County. I have concluded that this does not pose a risk to the auditor's independence and objectivity, but as a safeguard have set clear parameters over what work he can be involved in during this year's audit. I bring this to your attention in the interests of transparency. The threat has been reduced to an acceptably low level.*

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

Correspondence from local electors

I have received correspondence from a local government elector in relation to the 2010-11 accounts. I have considered the matters being raised and am satisfied that they do not prevent me from issuing an audit opinion on the accounts. However, I cannot certify the closure of the audit, until I have considered the issues more fully.

I ask you to confirm to me

I ask the Governance and Audit Committee to:

- take note of the matters raised in this updated report; and
- agree your response to the proposed action plan (Appendix 4).

Financial statements

Opinion

Opinion on the financial statements

I issued an unqualified audit opinion on the 2010/11 financial statements on 26 July 2011.

This report outlines the key findings of my work on the Council's financial statements for the year ended 31 March 2011. It includes any findings about the superannuation fund accounts which are contained within the Council's financial statements. I presented a shortened version of this report which focused specifically on the Fund's accounts to the Superannuation Fund Committee on 2 September 2011.

Errors in the financial statements

My audit seeks to ensure that the accounts are materially correct and present a true and fair view of the financial transactions of the Council in 2010/11. The concept of materiality is defined at Appendix 4. For the 2010/11 accounts I have set materiality levels as follows: £24.8 million for the Council and £16.0 million for the Superannuation Fund. Under International Standards on Auditing I also set a threshold below which I judge any errors to be 'trivial' and do not ask for the accounts to be amended. For 2010/11 the triviality threshold is set at £248k for the main statements and £160k for the Superannuation fund.

Where I identify errors above this triviality threshold, under auditing standards I must request officers to amend the accounts. During the audit I identified a small number of errors in the financial statements. In agreement with the Governance and Audit Committee, officers agreed to adjust the financial statements for all but two of the errors. The reasons for not adjusting the accounts for the two misstatements were set out in the representation letter approved by the Chairman and Liberal Democrat member of the Committee on 25 July 2011.

The misstatements identified in the accounts are set out in appendix 1 (adjusted errors) and 2 (unadjusted errors) of this report.

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. In the earlier version of this report I set out the key areas of judgment and audit risk for the Council and Superannuation Fund with the audit findings up to 30 June 2011. These are reproduced for the Committee's information in Tables 1 and 2 below and the matters contained in my letter to the Chair of the Committee have been added.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings – Kent County Council	
Key Audit Risk	**Finding:**
1. International financial reporting standards The financial statements will have to reflect for the first time the requirements of International financial reporting standards. This is a significant risk as the changes to reporting standards affect all main statements. This is a major workstream for the Finance Department at a time when its capacity is stretched.	I worked with officers throughout the closedown period to review their working papers on the proposed amendments under International Financial Reporting Standards (IFRS). As part of this review, I provided challenge to the judgements being made by officers, resulting in some changes to the restated accounts. As a result, the full version of the restated 2009/10 accounts, received in late May, correctly reflected the requirements of IFRS. I have identified some minor issues in the 2010/11 financial statements which I report in the ‘quality of the financial statements’ section of this report. *These have been corrected by officers.*
2. Accounting for leases: The definition of leases is wider under IFRS and many more arrangements may conceivably be recognised as and have to be accounted for as leases.	The Council undertook an extensive review of its leases during 2010/11. Audit testing confirms that the financial statements correctly reflect the categorisation of leases as either operating or financial leases.

Key Audit Risk	Finding:
3. Public Finance Initiative (PFI) accounting: Three PFI schools became operational during the year. The Council has to review the schemes and assess whether the assets are brought on to the Balance Sheet with an appropriate finance liability. I reported in the 2009/10 annual governance report that there was an uncertainty over the valuation of a PFI school. The Council has to value all the PFI schools, including the three new build schools if on Balance Sheet, in 2010/11.PFI accounting is a significant risk.	The Council has brought these assets on to the Balance Sheet. My review of the accounting treatment is nearing completion and I will report my findings to you once this work is complete. The valuation of the PFI schools has been undertaken by Mouchel using a specialist valuation model for PFI assets. Audit testing confirmed that the revaluation of PFI assets in 2010/11, which also includes the Kent Adult Social Services PFI, were impaired by £24 million.
4. Restructuring The Council is currently undertaking a large restructuring exercise of its directorates and central departments. This will involve redundancies and restructure costs that will need to be accounted for in 2010/11 financial statements. These are likely to be material estimates.	The Council has correctly accounted for restructuring costs in the financial statements.
5. Related party transactions 'Clarity' International Standards of Auditing have increased the audit work required on related parties and in particular the investigation of management controls.	Audit testing has confirmed that the related party transactions note discloses all required declarations and payments made to those bodies.

Key Audit Risk	Finding:
6. Foster care system As part of documenting the material financial systems I identify key controls to gain assurance over the system. I was unable to identify key controls in the foster care system.	There is a weak control environment in this system which the manager is aware of. The foster care system covers two main areas of expenditure: foster care (£29m) and adoption (£7m). Substantive sample testing has found that the foster care payments are supported by original documentation and are correctly stated. *I completed the testing of the adoption payments made in 2010/11. My testing identified that officers are not routinely completing agreed procedures:* • *evidence supporting the means test calculation is not kept on the file; and* • *the approval process for the payment award is not evidenced by the district managers.* *There are 14 district managers who oversee the means test calculation and agree the weekly payment to carers. The weaknesses in the adoption payments procedures during 2010/11 cannot lead to a material error in the financial statements due to the value of payments made in the year. Whilst I am satisfied that the payments were made, given the lack of evidence available, I cannot confirm the accuracy of the payments.* *Management has introduced new procedures for adoptions payments from 1 April 2011 so these weaknesses should not exist in the future.*

Key Audit Risk	Finding:
The following audit risks relate to both the Council and Superannuation Fund Accounts:	
7. Actuary's assumptions: Barnett Waddingham carried out a full triennial valuation as at 1 April 2010. I am aware that different assumptions will be used from the previous actuarial valuation which may give rise to a material change to the Superannuation Fund's liabilities.	The actuary provided the assumptions for the roll forward of the triennial valuation. Audit testing completed under International Accounting Standard 19 (Employment Benefits) identified that the actuary estimated the growth in the Fund's asset base as 6.9% whereas the actual growth is nearer 11% as at 31 March 2011. This difference resulted in the County's share of the Superannuation fund assets, estimated at approximately 46%, being significantly different between the IAS 19 actuarial report (£1.450m) and the actual year end asset figure (£1.471m). The actuary has now produced a revised IAS 19 report and the Council will amend its accounts to reflect the new figures. I recommend that a control needs to be implemented by management to check the reasonableness of the assumptions against the net assets statement.
8. Icelandic bank deposits The Council must write out the balance of the impairment as changes to accounting standards remove entries in the adjustment account. This is a sensitive issue for the readers of the accounts. I am expecting further guidance in a LAAP Bulletin before the financial statements audit.	The Council has correctly charged the impairment of the Icelandic bank deposits to expenditure in accordance with the latest accounting advice from CIPFA.

Key Audit Risk	Finding:
9. Superannuation fund bank account: As of 1 April 2011 the County Council and Superannuation Fund will have separate bank accounts. The Council transferred the cash held on behalf of the Superannuation Fund on 1 July 2010. There is a risk that the Council fails to correctly separate all income or expenditure.	The Council and Superannuation Fund have correctly separated the bank balances. However, further testing is being completed on the Superannuation fund bank account as a small number of admitted and scheduled bodies are still paying contributions to Kent County Council's bank account. *My review of the year end cash balance identified that it was incorrectly stated on two accounts:* • *understated by £21k due to the Council excluding the interest received on the call account as at 31 March 2011; and* • *overstated by £13,082k due to the Icelandic deposits being included in the balance. These should be recognised as a debtor in 'other current assets'.* *The Council has amended the cash balance to state the correct year end position of £14,652k.*

Key audit risks and our findings – Kent Superannuation Fund

Key Audit Risk	Finding:
1. International Financial Reporting Standards (IFRS): The Superannuation fund statements will have to reflect, for the first time, the requirements of the International Financial Reporting Standards.	There is a requirement to disclose the 'actuarial present value of promised retirement benefits' in the 2010/11 accounts. In advance of the accounts production, officers selected the option of disclosing this value in a note to the accounts. The accounts submitted for audit did not contain the note. The IAS 26 report from the actuary states that this value is £4,523 million. The accounts also omitted the following requirements: • note on defined benefit schemes; and • note explaining the move to IFRS, which is required even if there are no material changes to the accounts. *This note has now been included by officers.*
2. Valuation of freehold property: The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at 31 March 2010 at £168 million.	Audit testing has provided assurance that the valuation of the freehold property is materially correct.

Recommendation	
R1	The control weaknesses within the foster care system should be resolved.
R2	The Treasury and Investments Manager should carry out a reasonableness check of the actuary's IAS 19 reports before issuing to Kent County Council and other admitted and scheduled bodies for inclusion in their financial statements.

Financial statements

Quality of your financial statements

The quality of the draft financial statements presented for audit was good.

Working papers supporting the accounts were not provided on the first day of the audit. These could be improved by adding narrative information to ledger extracts.

Officers responded promptly to audit enquiries and were helpful in producing further information for audit. However, there were delays in producing additional information and reports for audit within the Superannuation team.

Generally accounting practices, policies, estimates and financial disclosures were appropriate. I identified some areas for improvement.

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

These are the issues I want to raise with you.

Accounting practices, policies, estimates and financial disclosures

Issue	Findings and recommendations:
Kent County Council:	
Explanatory Foreword	I recommended that reference is made to the aborted Building Schools for the Future wave 4 project. Officers included this in the final set of accounts.
Internal consistency of the financial statements	I identified a small number of areas where the notes to the accounts were not internally consistent. Officers reviewed these and amended the accounts as appropriate.
Financial instruments (note 15)	My review of the financial instruments note identified a number of presentational and disclosure issues. This note has been revised by officers.
Revenue expenditure funded by capital under statute (REFCUS)	*My testing identified a number of expenditure items potentially incorrectly categorised as capital transactions. These included, survey fees, maintenance contracts, Legionella inspection tests, PMAs etc. These are not capital transactions although they have been treated as capital expenditure.*

	However, as this revenue expenditure may lead to a capital project, e.g. surveys leading to capital works, KCC may have justification for capitalising the expenditure. This is difficult to ascertain, as while it is clear some projects have correctly capitalised actual capital expenditure (also REFCUS in foundation schools etc), the majority of the maintenance contracts have been capitalised for all schools without a clear audit trail of expenditure classification. *This is an area of uncertainty as to the scale of misstatement and could well be material. However, this issue does not impact on primary statements and only affects two disclosure lines in note 7, without affecting the 'Total adjustments' in the note. My view is that this uncertainty would not be material to the reader of the accounts.* *In future, I recommend that KCC ensures that all revenue expenditure is treated correctly.*
Contingent liabilities (note 40)	*The Council has amended the narrative of the note to clarify the contingent liabilities as at 31 March 2011.*
Post-balance sheet event (note 6)	*Following the recent government announcement on education funding by the Department for Education on 19 July 2011, the Council has drafted a post balance sheet note which I have reviewed and agreed.*
Kent Superannuation Fund:	
Accounting policies	The accounting policies were prepared on the Pensions Statement of Recommended Practice. They should have been prepared based on the CIPFA Code of Practice for Local Authority Accounting. Some amendments were required to ensure compliance with the Code, for example, disclosures required under International Accounting Standard 26 (see page 10 for further detail).
Contributions receivable (note 1)	Audit testing on the timing of contributions receivable by the Superannuation fund identified that payment from admitted and scheduled bodies of the scheme are in breach of regulation 42(2) of

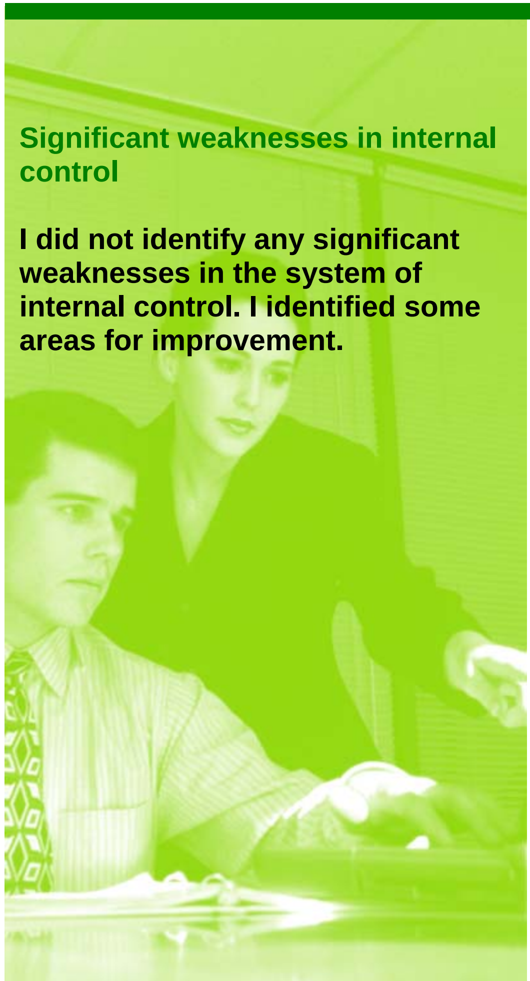
	the Local Government Pension Scheme (Administration) Regulations 2008. This requires employer authorities to pay employee contributions to the administering authority within 19 days of the end of the month to which they relate. Testing found that the regulation had been breached throughout the year by admitted and scheduled bodies. Officers monitor this on a monthly basis through a key performance indicator and payment within 19 days has improved by year end.
Financial instruments (note 17)	*The CIPFA Code of Practice on Local Authority Accounting 2010/11 requires the Superannuation Fund Accounts to disclose a financial instruments note. Officers omitted the note from the draft financial statements but have since included a note which I have audited and agreed.*
Disclosure amendments to notes	*The financial statements have been amended as follows:* • *Three new notes were added disclosing the 'actuarial valuations as at 31 March 2010' which was previously disclosed in the introduction section of the accounts, the 'International Accounting Standards 26 disclosure' and 'Property' setting out the valuation of, and income from, investment properties;* • *Note 5 was expanded to disclose the 'other investment management expenses'; and* • *Note 8 'cash and cash equivalents' was reduced by £13,082k and 'other current assets' were increased by this amount.*

Letter of representation

A letter of representation was prepared by management for the 2010/11 audit opinion. The letter included the reasons for not adjusting the accounts for the two misstatements. This was approved by the Chairman and Liberal Democrat member of the Committee on 25 July 2011.

Recommendation	
R3	Officers should continue improvements made at the end of the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days in the 2011/12 year.
R4	Officers should ensure that all revenue expenditure, regardless of the funding source, is accounted for in accordance with the Code.
R5	Officers should improve procedures to collate and disclose contingent liabilities.

Financial statements



Significant weaknesses in internal control

I did not identify any significant weaknesses in the system of internal control. I identified some areas for improvement.

International Standards on Auditing requires auditors to carry out a risk assessment of the general IT control environment. My review for 2010/11 has identified a specific weakness in the IT environment as set out below. Officers acknowledge the weakness and have agreed to take action to correct it.

I also identified two other potential issues that I have discussed with officers. I am satisfied that officers have put in place appropriate controls to mitigate the risk of these so am not required to report them to you.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Internal control issues and our findings

Description of weakness	Potential effect:	Management action:
The Axise Superannuation system has a generic user ID with administrative privileges which is being used by the payroll team.	There is a risk of potential misuse of the system by the payroll team as the user ID has full access to the Superannuation system and the ID is being shared within the team.	Officers have confirmed that the user ID is only used for the purposes for which it was intended. The Superannuation's payroll group carry out 100% checking of all input and this is backed up by a system journal for each user automatically created each night. This is sufficient to mitigate the risk in 2010/11.

	Disabling leavers' accounts on Oracle is not always completed in a timely manner.	This could lead to manipulation of financial data in Oracle by another user accessing the account after officers have left.	Officers confirm that this is a potential risk limited to users with administration access to Oracle and have highlighted alternative controls that limit the exposure to this risk to a period of 30 days. Officers have provided reports confirming that there were no leavers in the 2010/11 year that had administration access to Oracle so the risk of manipulation in 2010/11 has not materialised.

Recommendation	
R6	The Council should improve the process for disabling user accounts on Oracle.
R7	Stronger controls should be implemented in the Axise Superannuation system to mitigate the risk of an administrative level user ID being used by multiple officers.

Value for money

Value for money conclusion

I issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 26 July 2011.

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

I issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 26 July 2011.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission:

- **Financial resilience - The organisation has proper arrangements in place to secure financial resilience**
  Focus for 2010/11: The organisation 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.
- **Securing economy efficiency and effectiveness - The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness**
  Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Value for money

In my audit plan to you in March 2011, I set out the work I intended to complete to allow me to issue a VFM conclusion. My detailed findings are set out below.

Audit Risk	Audit Response
Senior management restructure The Council's Change to Keep Succeeding proposals were approved by the Council on 16 December 2010 and will be implemented for the 2011/12 financial year. Significant changes to the management team may impact on the leadership team's collective knowledge, experience and skills and may have an impact on business continuity and capacity. Strong transitional arrangements are important at a time when the Council has a particularly challenging agenda and as a result the Council has established project management arrangements, including risk management arrangements to mitigate against the risk identified.	I will : ■ monitor the effectiveness of the risk management arrangements; ■ review a sample of redundancies and any compromise agreements to determine the value for money; ■ review the financial savings emerging from the restructuring; and ■ review the re-mapping of directorates' budget.

Summary of findings

Background

In autumn 2010, the Council embarked on a programme of senior management restructure called "Change to Keep Succeeding". This was in response to significant anticipated cuts in public sector funding and to strengthen corporate arrangements to deliver the Council's Medium Term Plan, Bold Steps for Kent, and new government policies and priorities. Key principles of the restructure included improving productivity and efficiency through economies of scale and providing a structure to support an integrated "One Council" approach to minimise duplication and avoid professional silos. To ensure the new senior management structure aligned with the new Medium Term Plan and developing Medium Term Financial Plan (MTFP), the Council set a challenging timetable to implement the new structure by the start of the new financial year 2011/12.

Risk management arrangements

Reporting to members clearly identified risks and the Council put in place programme management resources to manage these. Significant programme risks such as the impact on management capacity, governance arrangements and finance capacity were incorporated into the Council's corporate risk management arrangements and members were updated on progress. The Corporate Management Team (CMT) acted as the programme board and received regular updates on the implementation plan.

The programme has been effectively managed, including risk management arrangements. The senior management/ directorate restructure was completed in line with the planned timetable and with no detrimental impact on the delivery of Council services. Relevant systems (Finance, HR, IT etc) were up and running as planned on 4 April 2011. Significant work was undertaken to update systems to go live from 4 April 2011 including the use of dry runs and data cleansing on the HR system and the re-mapping of budgets. The large majority of transition work was completed to allow operation of the new structure at the start of the financial year but some issues arose following implementation which required additional work such as final transfers of some staff and review of transferred budgets and associated funding. Lessons learnt from the restructure exercise have been reported to CMT and recommendations have been integrated into future Council work programmes.

Following completion of this first stage of the restructure the Council is now in the process of completing restructures within directorates and resulting savings have been factored into the MTFP. The directorates are at different stages of development and we have considered this as part of our work on the Council's savings plans considered below.

Senior management appointments

'Change to Keep Succeeding' proposed significant changes to the Council's structure, changes to existing directorates' responsibilities and the roles and responsibilities of senior managers. The programme firstly applied the Council's normal HR process to the new structure to establish which of the existing senior managers should "slot" into the new roles where these were similar to existing posts. Those managers that could not be allocated to new posts were classified "at risk" of redundancy and could apply for the remaining posts in the structure or apply for voluntary redundancy. Two "at risk" senior managers were subsequently appointed to vacant posts. The remaining vacant posts were then advertised and a mix of internal and external candidates appointed. This mix both reduced risks in relation to business continuity and provided new capacity from outside the Council.

Value for money

In the limited number of cases where suitable candidates were not identified in the first round of recruitment, including the Corporate Director of Education, Learning and Skills (ELS) and Corporate Director of Families and Social Care (FSC), posts have been filled on an interim basis. The Council put in place relevant processes and procedures for the appointment to these substantive posts including advertisement and searches. These posts have been recently filled with the successful candidates expected to take up their positions in October/ November 2011.

Due to the financial imperative to identify management savings, directorate restructures are already being implemented. However, as the new Corporate Directors take up their positions and gain an understanding of their directorates, there was a risk that newly appointed Corporate Directors may have wished to make further changes to the structures. This risk was mitigated by ensuring the new appointees were fully consulted on the agreed new structures.

I have reviewed the financial impact of those former senior staff that were not allocated to new posts or applied for voluntary redundancy. With the exception of one former employee, all those made redundant were paid an unenhanced redundancy package of redundancy payment and early access to pensions where applicable, in line with the Council's redundancy policy and the local government pension scheme. The costs of the redundancy and early access to pensions were reported to, and approved by, the Personnel Committee. In the one case where an enhanced package was paid due to potential future claims by the employee the case was made to the Personnel Committee and the costs reported. Relevant personnel and legal advice was sought and the enhanced payment made to the employee and cost to the Council was not significant and in my opinion, not unreasonable.

In addition to redundancy payments, staff were paid Payments in Lieu of Notice (PILON) for the period between 1 April 2011 and the employees' notice period (generally four months). These payments were paid in line with the Council's Terms and Conditions of employment and did not include any enhancements or compensatory payments. Although usually I would expect those staff whose contracts are being terminated to work their notice I am satisfied that each employee was considered on a case by case basis and that due to the need for the restructure to be operational at the start of the financial year and the positions previously held by those staff made redundant, the payment of PILON was reasonable.

As there was no contractual entitlement to PILON these payments were covered by compromise agreements. The Council has a compromise agreement protocol requiring different procedures to be followed based on the value of any compensatory sum paid as part of a compromise agreement. "Large sum agreements" where the compensatory sum is in excess of £50,000 requires agreement and approval by the Monitoring Officer, Director of Personnel and Development and Director of Finance. The protocol defines a "compensatory sum" as "a sum of money to be paid in connection with the termination of an individual employee's employment that is in excess of any payments that an employee is contractually entitled to (for example accrued holiday pay)". The protocol also states that “There is no contractual entitlement to any payment in lieu of notice (PILON)”. None of the above payments were treated as “large sum agreements” however the payment of PILON and accrued holiday pay would have meant that some of these payments exceeded the £50,000 threshold. To avoid any potential misinterpretation over the application of the Council's own compromise agreement protocol, it should clarify whether extra-contractual payments such as PILON and payments for accrued holiday pay are included in consideration of the “compensatory sum”.

Savings

The ‘Change to Keep Succeeding’ proposals submitted to the County Council for approval included a section on financial implications. This stated that “*the savings on implementation given the proposed restructuring and likely outcomes will deliver a reduction in costs at implementation of approximately £750k*.”

The saving of £750,000 reported is based on the annual savings comparing the cost of the old and new top tier structures, assuming the mid point of the salary range and represents the ongoing base budget saving arising from the senior management restructure. However there were additional financial implications of the restructure relating to redundancy and termination payments which were not estimated in the report due to the unknown costs at the time the report was written. Whilst it is accepted that at the time of writing the County Council report in December 2010 included references to redundancy and that individual staff members affected was not yet known, an estimate or description, of potential contract termination costs and proposed funding could have been provided to members to provide a fuller appreciation of the financial impact of the changes. These one-off costs relating to redundancy payments and pension payments, were subsequently reported to the Personnel Committee once they were known and amounted to over £900,000. These were budgeted for and were funded from a combination of central restructuring reserves and charges to directorates.

The Council should ensure that financial implications section for reports requiring decisions include sufficient information, including uncertainties and risks, for members to have a full appreciation of the financial impact of their decisions.

Budget re-mapping

Due to significant financial challenges facing the Council, the work on the budget and savings proposals needed to be completed concurrently with the restructuring proposals. Therefore the 2011/12 budgets were based on the old directorate structure and once the new structure was confirmed, the budget had to be recast. Whilst this entailed significant additional work within Finance, financial accountability and control was particularly important in the context of financial pressures and significant savings requirements and this process enabled clear arrangements to be in place from the start of the financial year.

Although this approach carried additional complexity with regards understanding, accountability and control of the budget and savings plans my work has confirmed that the process had been well managed with clear communications from Finance and good understanding by the budget holders.

In addition to the budget recasting, a revised approach was taken to the budget setting process in 2011/12 to increase transparency and public understanding of the budget. The budget was therefore reported in three parts including:

- portfolio summary;
- A-Z of services (public facing);
- directorate level budget, detailing services/ units including responsible managers.

The presentation of the budget in an A-Z of services provides a more understandable summary of how the Council spends its money to the public, separating the services delivered from the managerial/ administrative control. This reflects government policy of transparency in public services and is considered to be good practice.

As in previous years, the budgets were built up from services. Therefore there was budget holder involvement in identifying the base budget, pressures and savings which ensure understanding and accountability for budgets. In this respect there were no changes to previous years. A separate exercise was then undertaken by Finance to allocate the budgets across the services and new directorates based on staff transfers and other analyses of costs such as property and IT costs. The most significant adjustments included the transfer of service budgets from Children, Families and Education between ELS and FSC and the identification of support costs within directorates transferred to Business Strategy and Support (BSS).

The large majority of the work was completed and the budget entered onto the general ledger to provide management information for the start of the financial year. At the time of my review, in July 2011, further work was being undertaken to address issues arising from the transfer of budgets and to reflect the new portfolio structure. Work was also ongoing to enable quarterly Cabinet reporting and monitoring in line with the public facing A-Z of services structure rather than directorates/ portfolios. The Council has provided delegated authority to amend/ vire budgets by £0.5 million if necessary. Whilst acknowledging the good practice and drive for transparency, the analysis and reporting of budgets by service, directorate and portfolio could cause confusion and may require duplication of effort. The Council should therefore consider the costs and benefits of the different analysis of A-Z of services, directorate and portfolio structures/ analyses for budget monitoring and reporting and ensure that these provide value for money.

There is a good understanding of the recast budget in directorates. Responsible managers are clear on the budgets under their control and the savings

Value for money

they are required to deliver. The 2011/12 savings requirement have clearly been assigned to individual responsible managers as part of the budget recast and savings plan arrangements. One potential risk area identified during my review related to the transfer of budgets to BSS and the service expected by directorates. As part of the restructure, support services previously provided within directorates were transferred to BSS. These budget transfers included related savings requirements included in the MTFP. BSS is now responsible for delivery of those savings and as a consequence of the budget reductions a reduced level of service may now be provided compared to those previously provided within the directorates. BSS restructures are underway but there is a potential risk that directorates may seek to maintain previous levels of support by recruiting staff to supplement the services provided by BSS. The Council is aware of this risk and intends to introduce controls to mitigate against these. The Council should therefore continue to ensure that there are clear communications with directorates with regards to the services provided by BSS and the impact of the savings requirements and, following implementation of the restructure, review whether BSS demonstrates value for money to the directorates.

Recommendation
R8 Clarify whether extra-contractual payments such as PILON and payments for accrued holiday pay are included in consideration of the "compensatory sum" when considering the thresholds for compromise agreements and the application of the compromise agreement protocol.
R9 Ensure that financial implications section for reports requiring decisions include sufficient information, including uncertainties and risks, for members to have a full appreciation of the financial impact of their decisions.
R10 Consider the costs and benefits of the different analysis of A-Z of services, directorate and portfolio structures/ analyses for budget monitoring and reporting and ensure that these provide value for money.
R11 Ensure that there are clear communications with directorates with regards to the services provided by BSS and the impact of the savings requirements. Following implementation of the restructure, review whether BSS demonstrates value for money to the directorates and ensure planned procedures prevented duplication of functions.

Value for money

Audit Risk	Audit Response
Financial challenges Councils are facing significant financial challenges. The Council has identified savings of £95 million in 2011/12 and £65 million the following year. Although the Council has an excellent history of delivering against its efficiency targets, this was of a different scale to the savings now required. The Council has identified that in 2011/12 this will require efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million. The Council's robust financial management and budgetary control arrangements may no longer be sufficient to ensure that these savings are delivered.	I will: ■ monitor the progress the Council makes against its savings target; ■ review the project management arrangements to monitor the savings plan and manage risks at a corporate level and consider the progress against milestones for a sample of individual schemes; and ■ test the assumptions behind a selection of savings targets.

Summary of findings

Background

Demand for local services is increasing due to demographic changes and the recession. This is against a backdrop of significant cuts in government funding and reducing income from investments and fees and charges. The Council's partners will be facing similar pressures and cuts elsewhere may provide challenges to partnership working and may have unintended consequences on the Council’s plans. Strong project management arrangements are required to identify, evaluate and manage savings schemes. The savings target for 2011/12 within the MTFP is £95 million.

Project management arrangements

Project management arrangements are in place to monitor the identification and delivery of savings plans. This includes adequate oversight by CMT, the Governance and Audit Committee and policy overview and scrutiny committees.

Value for money

The Council initiated a process of monitoring the delivery of savings plans in the MTFP. The MTFP identifies the savings targets within directorates and services. For each project over £200,000 the responsible directorate/ manager has prepared a short Project Initiation Document (PID) which identifies how the savings will be delivered, the level of savings and project milestones. This process covers £92 million of the £95 million savings target in 2011/12. My high level review of the Council's monitoring spreadsheet shows that the total savings requirement in the MTFP has been adequately captured and savings identified and that all projects over £200,000 have PIDs in place.

Monitoring and co-ordination of the delivery of savings and PID process is undertaken by Finance. A PID surgery was held by Finance in April 2011 where the responsible manager and directorate finance business partner discussed the PID and project with the Acting Director of Finance, Corporate Accountant responsible for monitoring the savings projects and the Transformation Programme Manager. The surgery provided the opportunity to review the project and consider actions taken to date and a number of PIDs were revised following those discussions.

Responsible managers give the PIDs a red, amber or green (RAG) rating, with an additional blue rating where savings have already been delivered. The rating is considered by the Acting Director of Finance, Corporate Accountant and the Transformation Programme Manager for reporting. Reporting and monitoring is undertaken in a variety of ways and can vary across Directorates. For example the FSC have a separate Efficiency Board (now Savings Group) which considers progress against the PIDs whilst other directorates keep PIDs under review by the responsible manager and finance business partner. Corporately, Finance maintain an overview of the management assessment of the schemes through a monitoring spreadsheet reflecting updates from, and discussions with, finance business partners and detailed monitoring of budgets. The Transformation Programme Manager has also been involved in reviewing progress against the PID milestones. Reporting has been to CMT (and now Delivery Assurance Team), Governance and Audit Committee and to Policy Overview and Scrutiny Committees (POSC). These reports have explained the process and a summary of the RAG status of the projects.

Following the initial PID process, the focus for monitoring and review will move from savings delivery to budget monitoring. Therefore delivery of savings will now be monitored via the usual budget reporting process rather than a separate RAG rating or reporting the value of savings achieved and forecast. Discussions with officers have identified other significant risks to the budget such as emerging pressures in children's services. It is therefore critical that financial management arrangements do not focus solely on the delivery of the savings to the detriment of proper management of the Council's overall budget and spending.

However the delivery of the savings schemes may present specific risks around the achievement of base budget changes and one-off compensating actions. Although budget monitoring will highlight significant non-delivery of savings targets, without monitoring of milestones there are risks that non-delivery may not be highlighted early enough for remedial action to be taken. The Council is reviewing corporate arrangements for the monitoring of achievement of PID milestones; this should include a risk assessment of each PID and clarify any escalation procedures to be used if necessary.

Where schemes have been unable to deliver the planned savings, the directorates will be responsible for meeting the 2011/12 savings requirement in-year, for example by compensating savings/ underspends, wherever possible. Where the savings projects have not delivered base budget reductions but achieved by one-off measures, additional savings will need to be identified in 2012/13 if those original savings cannot be delivered in 2012/13. CMT has agreed that where directorates fail to reduce the base budget in line with the planned savings schemes, these should be responsible for identifying the additional recurrent savings in 2012/13.

Progress to date

At the time of our review, July 2011, the Council had made good progress against the 2011/12 target of £95 million. The reports to the Governance and Audit and Policy Overview and Scrutiny Committees in June/ July 2011 reported the following assessment of the savings schemes:

- Red (detailed plans not yet finalised and/or delivery not totally within the Council's control) – £4.8 million (£2.6 million to be pursued through original means and £2.2 million requiring alternative savings);
- Amber – £28.4 million;
- Green (delivery of savings has started) – £29.1 million; and
- Blue (savings delivered) – £32.4 million.

Whilst good progress has been made in implementing some of the savings schemes, a number of the blue savings resulted from one-off savings such as the roll forward of the 2010/11 underspend (£4.7 million), release of corporate reserves (£9 million) and utilisation of other specific reserves such as the Supporting People reserve (£3 million) in 2011/12. This approach is sensible given the front loading and timing of the government funding reductions and is factored into the MTFP. However, these do not address issues within the base budget and require further savings to be delivered in future years. The current MTFP is a two year plan and therefore does not include detailed plans for the reinstatement of these reserves but the Council intends to replenish these from base budget contributions from 2014/15.

Whilst there is a strong focus on delivery of savings in-year and a commitment from directorates to meet the reduced budgets in 2011/12 there are no clear contingency arrangements in place to achieve savings for projects identified as red or where there are risks to delivery. A prudent approach might be to consider alternative plans to address an agreed percentage of projects classed as red or amber. Given the continued requirement to deliver savings over the next four years these alternative plans could help to deliver future targets if not required in 2011/12. The Council should consider whether formal contingency plans should be in place for red and amber rated schemes to ensure that the 2011/12 savings target is met.

The current project management arrangements and reporting of progress has focused on 2011/12 savings targets. However, the MTFP requires delivery of significant additional savings of £65 million in 2012/13. Furthermore, to date during 2011/12 the Council has identified emerging pressures on the base budget therefore the level of savings required in 2012/13 is likely to be in excess of that in the MTFP. Where PIDs identify savings over 2 years these have been included within the current monitoring arrangements. £25 million have been identified through these means but there are significant savings yet to be identified. The Council is starting to embark upon a similar process for identification of potential savings through the PID process and consideration of options by Cabinet.

The Council’s savings target of £95 million in 2011/12 has been challenging and it has done well to identify the majority of these savings through better procurement and other efficiency measures, without resorting to significant numbers of policy changes impacting on delivery of services to the public. However, in future years it is likely that the savings will need to be achieved through policy changes which will effect front line delivery of services. These savings schemes will require strong political decision making based on robust information. Consultation is likely to be required and therefore these schemes may have a long lead in time. It is therefore essential that a strong project management process is in place for the identification and monitoring of savings schemes going forward. Although it may become increasingly difficult to identify savings in the future, based on the robustness of project management arrangements in place for 2011/12, the Council has a good basis for identifying, monitoring and delivering savings in the future.

Review of schemes

As part of my review I considered a sample of detailed savings scheme covering each directorate and each RAG rating. Through discussions with officers and review of documentation I considered the progress of the scheme and whether the RAG rating was realistic and that corporate monitoring arrangements provided adequate assurance for management and members.

The following schemes were reviewed through discussions with officers, review of supporting papers and consideration of the detailed assumptions behind the schemes. In all cases I considered the RAG assessment to be a fair reflection of the likelihood of achieving the target or agree it was a prudent/ conservative assessment of progress.

Value for money

£000s	Directorate	Description (PID ref)	RAG	Audit comments
2,200	FSC	Older Persons Strategy (35)	Green	Strategy developed with a number of drivers relating to the Council's provision of care for Older People, not solely identification of savings plans. Consultation had been completed and relevant decisions made. Delivery of the planned changes was underway and milestones were being achieved. Planned savings were on track to be delivered and exceeded. Monitoring within the Directorate undertaken by an FSC Efficiency Board. Savings calculations are based on a detailed analysis of re-provision of services based on current locality rates but allowed additional contingency for unforeseen costs.
7,000	CC	Supporting People (25)	Blue	2011/12 savings to be met from use of reserves with additional non-recurrent savings on contracts. However plans are already in place to reduce the base budget in 2012/13. Detailed plans are in place for different elements of Supporting People services including retendering of services, considering eligibility criteria and hours delivered. Planned milestones are being achieved. Savings calculations are based on benchmarking of provider rates.
4,000	BSS	Savings on net debt costs (10)	Green	Savings will be realised through a reduction in the capital programme and the impact on the Council's Minimum Revenue position. In addition, the economic climate has meant that it has been more efficient to fund developments from balances when returns are low rather than taking out loans and incurring debt costs. The target is likely to be over-achieved and the surplus used to fund emerging budgetary pressures.

Value for money

5,489	EE	Highways maintenance and overheads (38)	Amber	Savings identified through a completed restructure and fundamental review of contracts including re-negotiations and procurement. Large number of strands to the total savings with one significant project around the maintenance contract. Savings identified will not effect front line delivery, and in the case of the maintenance procurement contract will also realise additional benefits in terms of risk and quality of service. Since the amber assessment the new contract had been approved by Cabinet and all significant decisions have been made and milestones met to enable savings to accrue once the contract was in place, therefore Amber rating is now Green. There is a clear understanding within the directorate as to where the savings will come from and arrangements are in place to monitor the delivery of expected savings once the contract is in place (September 2011). A detailed and complex analysis was undertaken to estimate the level of savings and support the savings target.
1,113	ELS	Management structures (91d)	Red	The PID surgery and directorate assessment of progress found that the initial PID was considered to be unrealistic in terms of timing. Since selection of our audit sample, ELS has combined a number of existing PIDs relating to restructuring into a new PID. This re-profiles the planned savings by putting some schemes back and bringing some forward. This combined PID identifies savings of £1 million in 2011/12 compared to the previous plan of £4.8 million (including the £1.1 million which was previously included under this PID). This results in a significant non-recurrent shortfall against the 2011/12 target of £3.8 million and the directorate has identified options from underspends on other budgets, roll forwards and additional income. Restructuring plans are still in the early stages.

Value for money

My review identified a high level of understanding of the financial situation facing the Council and a strong commitment within the directorates to achieve the savings targets identified. Managers are clear on their responsibilities and felt that the PID process had been necessary and proportionate. There was also a commitment to identify further savings in future years whilst recognising that these would be increasingly difficult to achieve and would impact upon delivery of front line services.

The PIDs reviewed included various levels of detail and were of a variable quality. However this did not necessarily reflect the progress of the scheme as in many cases there was significant detail within the directorate to support the PID and milestones were being delivered and savings achieved. The Council should consider providing some standard guidance for completion of the PIDs for 2012/13.

Recommendation
R12 Review corporate arrangements for the monitoring of achievement of PID milestones based on a risk assessment of each PID and clarify any escalation procedures to be used if necessary.
R13 Consider whether formal contingency plans should be in place for red and amber rated schemes to ensure that the 2011/12 savings target is met.
R14 Provide some standard guidance for completion of the PIDs for 2012/13.

Value for money

Report by exception

I issued a report by exception in relation to the Council's arrangements with regards to safeguarding children and young people services and services for looked after children.

In addition to completing my planned work, I am required to consider any other significant matters that come to my attention and consider the impact on my value for money conclusion. A significant matter is one that could impact adversely on a council's 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. 'Proper arrangements' are defined in the Audit Commission's Code of Audit Practice which is approved by Parliament. The relevant extract from the Code is:

"It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- *planning finances effectively to deliver strategic priorities and secure sound financial health;*
- *having a sound understanding of costs and performance and achieving efficiencies in activities;*
- *reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;*
- *commissioning and procuring quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;*
- *producing relevant and reliable data and information to support decision making and manage performance;*
- *promoting and demonstrating the principles and values of good governance;*
- *managing risks and maintaining a sound system of internal control;*
- *making effective use of natural resources;*
- *managing assets effectively to help deliver strategic priorities and service needs; and*
- *planning, organising and developing the workforce effectively to support the achievement of strategic priorities."*

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 my consideration) and aspects of the Council's proper arrangements. I consider that 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.

I am required to recognise these weaknesses within the value for money conclusion as a 'report by exception'.

Appendix 1 - Amendments to the financial statements

I identified the following misstatements during my audit which management have adjusted the final version of the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

KENT COUNTY COUNCIL		Comprehensive income and expenditure statement		Balance sheet	
Adjusted misstatement	**Nature of adjustment**	**Dr £'000s**	**Cr £'000s**	**Dr £'000s**	**Cr £'000s**
1) Unusable reserves (note 22): Within the capital adjustment account the 'charges for depreciation and impairment of non-current assets' only includes the impairment figure for the current and previous year. Depreciation totalling £98,612k has been netted off minimum revenue provision in the 'statutory provision for financing of capital investment against the General Fund'.	The note has been amended to show the depreciation in the correct line of the note. Disclosed as follows: • charges for depreciation and impairment of non-current assets £132,616k; and • statutory provision for the financing of capital investment charged against the General Fund £(55,979)k.				

2) Superannuation's assets (Balance Sheet and note 39): The actuary has produced a revised report for International Accounting Standards (IAS) 19 as there was a significant difference between the estimated fair value of the asset base (£3.156 billion) and the actual Net Asset Statement asset base as at 31 March 2011 (£3.202 billion). The Council has approximately 46% share of the asset base. The estimated asset share was £1,450 million and the actual share is calculated as £1,471 million.	The Balance Sheet and note 39 entries will be amended to disclose the fair value of the assets as £1,471 million.			20,993	20,993
3) Capital grants income (Comprehensive Income & Expenditure Statement): *The Council accounted for capital grants income of £247m against the service line in the Net Cost of Services that they relate to. The Best Value Accounting Code of Practice (BVACOP) requires the grant income to be shown in the 'taxation and non-specific grant income' line in the Comprehensive Income & Expenditure Statement.*	*The capital grants income has been correctly amended in the Comprehensive Income & Expenditure Statement and related notes.*	*247,000*	*247,000*		

4) Nature and extent of risks arising from financial instruments (note 41): *The review of the liquidity risk disclosure identified that the maturity analysis of financial liabilities was incorrectly stated between the 'six and fifteen years' (£205,006k) and 'more than fifteen years' (£666,073k) categories.*	*The note has been correctly amended to disclose the following analysis:* • *between six and fifteen years £205,049k; and* • *more than fifteen years £666,090k.*				

KENT SUPERANNUATION FUND		**Fund Account**		**Net Assets Statement**	
Adjusted misstatement	**Nature of adjustment**	**Dr £'000s**	**Cr £'000s**	**Dr £'000s**	**Cr £'000s**
5) Investment valuations (Net Assets Statement and note 7): The direct confirmation of year end investments from the investment managers identified that 3 of the balances were incorrectly disclosed in the financial statements as the Superannuation Fund valuations were taken as at 31 December 2010. This led to understatement of 2 valuations: • Aurora £17,232k; and • YFM £2,039k. And overstatement of 1 valuation: • HarbourVest £1,199k.	The investment values have been amended to correct the £508k understatement of the net assets. The values as at 31 March 2011 are now: • Aurora £17,741k; • HarbourVest £1,147k; and • YFM £2,091k.		508	508	
6) Benefits payable (note 3): *The increases in the lump sums of £1,957k*	*The benefits payable note has been amended to state the correct figures.*	*1,957*	*1,957*		

were incorrectly disclosed in the Superannuation increases line of the note.	*The total values as at 31 March are now:* • *Superannuations increase £39,376k; and* • *Lump sums (retirement) £37,379k.*
7) Future investment commitments (note 12): *The disclosure included two errors within the note:* • *Total commitment with HarbourVest is overstated as one of the contracts for the reported £75m has not yet been signed; and* • *Total amounts invested with Partners Group and HarbourVest were disclosed against the incorrect Fund.* *Audit testing also identified that officers did not maintain records of the exchange rate used for the commitment or invested amounts so the exact disclosures could not be verified.*	*The disclosure note has been correctly amended to state the following:* • *HarbourVest commitment £60m* • *Invested amounts for HarbourVest are £1.6m and Partners Group £14.7m.*

Recommendation	
R15	Officers should maintain records of the exchange rate used for commitments in foreign currencies on the date of investment.

Appendix 2 – Unadjusted misstatements in the financial statements

I identified two misstatements during my audit which management did not adjust in the final version of the financial statements. The reasons for not adjusting the accounts for the two misstatements were set out in the representation letter approved by the Chairman and Liberal Democrat member of the Committee on 25 July 2011.

KENT COUNTY COUNCIL		Comprehensive income and expenditure statement		Balance sheet	
Unadjusted misstatement	**Nature of required adjustment**	**Dr £'000s**	**Cr £'000s**	**Dr £'000s**	**Cr £'000s**
Adult Social Care (Comprehensive Income and Expenditure Statement): The gross expenditure and gross income are overstated in the Statement by £3.9m. There is no effect on the net expenditure at 31 March 2011. Adult social care calculates the value of care packages on a means tested basis with some clients paying part of their package. Adult social care are accounting for the income paid by the client directly to the provider as notional income in the financial statements. This income is not received by Kent County Council, nor do they have the associated costs of that element of the care package. Therefore, the costs should not be included in the financial statements as it is not the Council's income or expenditure.	The adult social care gross expenditure and gross income should be amended to remove the notional income and costs of £3.9m.	3,900	3,900		

Property, Plant and Equipment (note 12): Audit testing of additions identified a duplicated asset in the infrastructure asset register. The Ashford Highways Super Depot had become operational in 2009/10 financial statements at a value of £7m. However, the costs of construction included in infrastructure asset register of £6.9m were accounted for as a capital addition in 2010/11. This means the Balance Sheet and Revaluation Reserve is overstated by £6.9m. There is no impact on the depreciation charge for 2010/11 as the asset added in 2009/10 has been correctly depreciated this year.	The construction costs of £6.9m should be removed from the Balance Sheet and Revaluation Reserve to ensure the accounts are not overstated. There would be a revenue amendment of approximately £2m. The changes required would cascade through a number of notes to the accounts.	2,000	2,000	6,953	6,953

Recommendation
R16 A manual adjustment should be made as part of accounts preparation to remove the notional income and associated expenditure from the adult social care accounts.

Appendix 3 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Appendix 3 – Glossary

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Appendix 3 – Glossary

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	The control weaknesses within the foster care system should be resolved.	2	Head of Financial Management	Yes		March 2012
13	The Treasury and Investments Manager should carry out a reasonableness check of the actuary's IAS 19 reports before issuing to Kent County Council and other admitted and scheduled bodies for inclusion in their financial statements.	3	Treasury and Investments Manager	Yes	We will carry out checks before the reports are issued.	March 2012
17	Officers should continue improvements made at the end of the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days in the 2011/12 year.	1	Treasury and Investments Manager	Yes	The timing of the receipts is a key performance indicator and will continue to be monitored monthly. We have no legal remedy in respect of late payments but employers are being reminded of the deadlines and new monitoring arrangements are being established.	Done
17	Officers should ensure that all revenue expenditure, regardless of the funding source, is accounted for in accordance with the Code.	1	Head of Financial Management	Yes		March 2012

17	Officers should improve procedures to collate and disclose contingent liabilities.	2	Head of Financial Management	Yes		March 2012
19	The Council should improve the process for disabling user accounts on Oracle.	2	Director of ICT	Yes		By March 2012
19	Stronger controls should be implemented in the Axise Superannuation system to mitigate the risk of an administrative level user ID being used by multiple officers.	1	Director of ICT	Yes	All PAYMAn journals are now retained even when blank.	Done
26	Clarify whether extra-contractual payments such as PILON and payments for accrued holiday pay are included in consideration of the “compensatory sum” when considering the thresholds for compromise agreements and the application of the compromise agreement protocol.	2	Corporate Director of Human Resources	Yes		Immediate
26	Ensure that financial implications section for reports requiring decisions include sufficient information, including uncertainties and risks, for members to have a full appreciation of the financial impact of their decisions.	2	Corporate Director of Finance and Procurement	Yes		Immediate
26	Consider the costs and benefits of the different analysis of A-Z of services, directorate and portfolio structures/ analyses for budget monitoring and reporting and ensure that these provide value for money.	3	Corporate Director of Finance and Procurement	Yes		Immediate
26	Ensure that there are clear communications with directorates with regards to the services provided by BSS and the impact of the savings requirements. Following implementation of the restructure, review whether BSS demonstrates value for money to the directorates and ensure planned procedures prevented duplication of functions.	2	Corporate Director of Finance and Procurement	Yes		Immediate
33	Review corporate arrangements for the monitoring of achievement of PID milestones based on a risk	2	Corporate Director of Finance and	Yes		Immediate

	assessment of each PID and clarify any escalation procedures to be used if necessary.		Procurement			
33	Consider whether formal contingency plans should be in place for red and amber rated schemes to ensure that the 2011/12 savings target is met.	2	Corporate Director of Finance and Procurement	Yes		Immediate
33	Provide some standard guidance for completion of the PIDs for 2012/13.	1	Corporate Director of Finance and Procurement	Yes		Immediate
38	Officers should maintain records of the exchange rate used for commitments in foreign currencies on the date of investment.	1	Treasury and Investments Manager	Yes	A memorandum record is being maintained of the FX rate.	Done
40	A manual adjustment should be made as part of accounts preparation to remove the notional income and associated expenditure from the adult social care accounts.	1	Chief Accountant	Yes		March 2012