

Kent County Council

2006/07 Report to those charged with governance - Draft



Members of the Governance and Audit Committee
Kent County Council
County Hall
Sessions House
Maidstone
ME14 1XG

June 2007

Ladies and Gentlemen

2006/07 Report to those charged with governance

We are pleased to present our report in connection with the audit of the 2006-07 Financial Statements. At the time of writing this report the external clearance meeting between officers and the audit team had not taken place and there are several matters that are still under discussion. As in previous years we would propose to clear an updated version of this report with the Chairman of the Committee and others as you agree at the forthcoming meeting of Governance and Audit Committee.

We would like to express our thanks to the management and staff at Kent County Council for the assistance given to us during the course of our work.

Yours faithfully

PricewaterhouseCoopers LLP

Encs

Contents

Section	Page
Executive summary	4
Financial statements	6
Use of Resources	14
Audit plans and fee update	16
Appendix A: 2006/07 targeted audit work	17
Appendix B: Summary of unadjusted differences	18
Appendix C: Use of Resources conclusion	22
Appendix D: Summary of recommendations contained in this letter.....	24

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2005 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Executive summary

The purpose of this report

This report summarises the results of our 2006/07 audit of accounts.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you on 30 June 2006. We have issued or plan to issue a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

Financial Statements

We have now completed a significant part of our [audit of the Authority's 2006/07 Financial Statements](#). We have noted several matters that we wish to bring to your attention including:

- Contract Services (DSO) pension provision;
- Prior period adjustment for the Kent Pension Fund Liability;
- Provision for the costs and recognition of income for the Kent Police HQ roof;
- Accounting for PFI Schemes;
- Restructuring of debt;
- Accounting for prepayments;
- Bad and doubtful debt provisions;
- Accounting for archives and libraries IT services; and
- Shepway collaboration.

These matters have been set out in more detail within the [financial statements](#) section of this report.

We anticipate, at [the time of writing this report](#), that we will issue an unqualified audit opinion on the financial statements, subject to the audit being completed with no significant errors individually or in aggregate being identified.

The following audit areas are still to be completed:

- Pension Fund Audit;
- Audit of the Adult Services and Children, Families and Education Directorates;
- Capital Testing;
- Review of the supporting evidence for the Statement of Internal Control; and
- Some areas of the directorate consolidation process.

Use of Resources

Under the Audit Code of Practice we are required to give an opinion on the Authority's use of resources. This opinion has been arrived at following an assessment of the Authority against a set of criteria issued by the Audit Commission. We are pleased to confirm that at the time of writing this report we propose to issue an unqualified opinion on Use of Resources, subject to the successful completion of our review of the management arrangements covering the Authority's Best Value Performance Indicators.

During 2006/07 we have also completed our Use of Resources Assessment. This differs from the opinion and feeds into the Authority's wider Comprehensive Performance Assessment (CPA) score. The Authority achieved an excellent Level 4 score for the CPA Use of Resources assessment.

We have been working with the Council on a number of targeted reviews. The one completed review, on School Clusters, has been reported to the Governance & Audit Committee. The remaining reviews are work-in-progress and will be reported to the same Committee as they are completed.

Financial statements

Accounts

We have completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. At the time of writing this report we anticipate issuing an unqualified audit opinion on the financial statements, subject to the completion of work in the following areas:

- Pension Fund Audit;
- Audit of the Adult Services and Children, Families and Education Directorates;
- Capital Testing;
- Review of the supporting evidence for the Statement of Internal Control; and
- Some areas of the directorate consolidation process.

A verbal update will be provided to the Governance and Audit Committee on the above outstanding and any further matters that may have arisen between the time of writing this report and the Governance and Audit Committee meeting.

Accounting matters for consideration

ISA 260 requires us to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have

detailed below those matters that we have identified as part of our audit that fall to be reported to those charged with governance.

Direct Service Organisation (DSO) Pension Provision

As identified in our 2005/06 ISA 260 Report the Contract Services Division was externalised in 1999. At this point, the Authority recognised that they would be liable for the additional unfunded pension liability for the 102 people who worked in this area and who took early retirement just before or shortly after the transfer. The cost of this pension 'top up' is met directly by the directorates, and is paid through the payroll system, rather than being met through the pension fund.

At the time of the transfer an actuarial valuation was performed and a liability set up within Strategic Planning for the future cost of these pensions. This provision, which currently stands at £455k, is not sufficient to meet the expected total liability as valued by the actuaries Hymans Robertson. However, the actuarial valuation is now included as a 'liability related to defined benefit pension schemes' alongside the main pension liability on the balance sheet, and amounts to £2,487k as at 31 March 2007. Currently the original provision is also included on the balance sheet within 'provisions'. We therefore suggest that the provision moves to reserves.

As with the pensions prior period adjustment (see below) we have noted that the actuary does not appear to have been in receipt of all relevant information needed to calculate the FRS 17 entries, for example, the value of any assets (provision) and the ongoing contributions being paid to meet the costs of the additional pensions. Therefore the full set of FRS 17 figures required to meet

the FRS 17 disclosure requirements has not been provided by the actuary.

Whilst the funds set aside (as a provision/reserve) to meet the pension costs are currently significantly less than the liability, funding has been formally built into the Medium Term Financial Plan from 2009/10, when the existing provision set aside to meet the ongoing contributions is expected to run out.

Contract Services pension provision

The £455k 'provision' currently set aside to meet the cost of the Contract Services pension liability should be transferred to a Contract Services Pension Reserve as the liability has already been recognised in the Authority's FRS 17 liability.

We recommend that a thorough review is carried out to ensure that all relevant information has been disclosed to the actuary for both this and the full pension fund, to allow them to carry out and prepare accurate and complete FRS 17 figures to meet the disclosure requirements of the standard.

Prior period adjustment for the Kent Pension Fund liability

During 2006/07 the Authority identified a £4.2 million 'unfunded liability' that arose when officers took early retirement and the Authority agreed to top up their full pension. These unfunded liabilities were incurred between the restructurings of 1974 and 1998. This information had not been forwarded to the actuaries since the requirement to implement FRS 17 disclosures in 2002/03. As a result the related actuarial liabilities have been omitted from the total liabilities since 2002/03 financial year.

The actuaries have now been informed of this additional amount and have included the unfunded liability in their calculations of the FRS 17 figures for 2006/07. This has resulted in a prior period adjustment being required to restate the 2005/06 figures. The prior period adjustment has resulted in a £62m increase in the pension liability for 2005/06.

Pension liabilities

We recommend that the Authority carries out a thorough investigation of pension fund information supplied to the actuaries to ensure that it is meeting its obligation to supply its actuaries with full details of its pension obligations.

Provision for the costs and recognition of income for the Kent Police HQ roof

The Authority provided the design plans for the Kent Police HQ roof. During 2005/06 the Authority contributed to the costs of emergency repairs to the Police HQ building's roof and identified a potential liability for costs of a replacement roof. No provision was made at this stage for the potential cost of replacing the roof as no actual claim had been made against the Authority, liability had yet to be determined and it was not possible to estimate the potential liability at that stage.

There continues to be no provision for the costs to replace the roof in the 2006/07 accounts and there has been no correspondence between the two organisations to progress this issue during the year. However, there has been liaison with the council's insurers.

A long term debtor of £417k has been recognised in the 2006/07 accounts to recognise anticipated income against the costs of repairs from an insurance claim. However, although officers are confident that the insurance claim will be paid the insurers have not confirmed this in writing. The legal team responsible for the claim considers that there is still an element of risk that the Authority may not receive the proceeds of this claim. We would advise that the debtor should not be recognised in the accounts as there is still an element of uncertainty that the claim will be settled. Once the letter confirming that the insurers will settle claim has been received then it would be appropriate to recognise the debtor and associated income. This item appears on our unadjusted differences in Appendix B.

Kent Police HQ roof

Due to the element of uncertainty still surrounding the insurance claim for £417k, the income and associated debtor should be removed from the 2006/07 financial statements.

When discussions with the insurer are concluded, the authority should enter into discussions with Kent Police Authority to resolve the issue of the repairs required to the police HQ roof. Any costs which are likely to be incurred should be provided for within the budget and medium term financial plan and in turn the financial statements.

Accounting for PFI Schemes

In the 2005/06 ISA 260 report we noted the complexity of accounting for PFI schemes. We have worked with the Authority over the course of 2006/07 to ensure that the correct accounting treatment has been applied to these schemes in the 2006/07 accounts.

One of the required accounting entries is to build up the estimated residual value of the asset at the end of contract's life, at which point the asset is transferred to the Authority for nil cost. The estimated value has been arrived at through discussions with the Authority's valuer. However, no formal valuation has been obtained.

Restructuring of debt

During 2004/05 the Authority restructured its debt financing, and incurred a cost of £2.1 million for the early redemption of the existing loans (a 'premium'). This cost was being spread over the lives of the replacement loans, which average 30 years.

In 2006/07 the replacement loans were themselves replaced with loans of a similar nature and duration. As a result, the premia incurred in 2004/05 continue to be spread over the life of the replacement loans. Whilst this approach can be justified under the current regulations, it now appears likely that the ability to do this in future will cease. It is possible that the cost of any future premia that are incurred on the restructuring of debt will have to be met in full in the year that they are incurred. There could be a requirement for

prior period adjustment.

Monitoring the developments and entering into the debate (where possible) will be important to help to ensure that any future decisions on the restructuring of debt also consider the accounting impact (not just the cash position) that may result from the changes in the regulations within this area.

Accounting for prepayments

Prepayments are calculated monthly so that any element of an invoice for services (eg rentals) relating to March 2007 may have been excluded for accounting purposes and allowed to remain within the prepayment, rather than being separated out as expenditure in the year. This could lead to an understatement of expenditure and overstatement of prepayments, although it is noted that any expenditure misstatement due to incorrect accounting treatment in 2006/07 will be largely off-set by the application of the same policy in 2005/06, leaving only the balance sheet impact.

Through testing of prepayments in the Chief Executive's and the Environment and Regeneration directorates we identified £77,388 of 'prepayment' that was actually 2006/07 expenditure.

As a result of the consistent application year on year and given the relatively small scale of the errors identified to date, we believe that the risk of material misstatement to the accounts as a result of this accounting treatment is likely to be low.

Prepayments

The Authority should review its accounting treatment for prepayments and consider whether it would be more appropriate to separate out expenditure relating to the year of account on a daily, rather than a monthly, basis.

Bad and doubtful debt provisions

The Communities directorate has provided £27k for bad and doubtful debts, on a total debtor balance of £4.1 million. This provision was inherited from the Social Services and Strategic Planning directorates when the Authority was

restructured on 1st April 2006 and has not moved since the prior year. At present, it is not possible to identify whether the debts to which this provision related are still outstanding as at 31 March 2007.

The directorate has not made any other provision for bad and doubtful debts at year end.

Bad and doubtful debt provisions

In the light of the restructuring that took place in 2006/07 the Authority should review its policies for providing for bad and doubtful debts to determine whether these are adequate. Following any revisions the policy should be re-communicated to all directorates to ensure that it is consistently applied. Where directorates feel that they require their own policy for providing bad and doubtful debts this should be fully documented, applied consistently and communicated to the relevant officers.

Accounting for archives and libraries IT services

Archives and libraries have a contract with BT which provides a managed service for provision and management of IT services to libraries. Contractual change requests are charged in addition to the core services. These cover new items of equipment, such as additional computers and printers, along with maintenance of the existing network. Under the terms of the contract, the cost of change requests can be paid immediately or spread over the life of the contract, in which case it will be subject to inflation. As a result, it was decided within Archives and Libraries that, wherever it is possible to meet these expenses within budget, they would be paid immediately and expensed in the year.

However, the appropriate accounting treatment would be to expense only the elements of change requests relating to maintenance work in the year (£283k in 2006/07). Costs relating to provision of additional equipment (£233k in 2006/07) should be set up as a prepayment and expensed over the life of the remaining contract in recognition of the fact that the equipment is being leased over this period.

Whilst expenditure in any one year will be overstated, through expensing change requests related to IT equipment added in year, this is offset by the understatement of the leasing expense for equipment added through change requests in prior years. Therefore, we have deemed the risk of material misstatement as a result of this incorrect accounting treatment to be low.

Accounting for archives and libraries IT service

The directorate finance teams should review any new contractual arrangements, or changes to existing arrangements, to ensure that the accounting treatment adopted is in line with financial reporting standards.

Shepway collaboration

As noted in our 2005/06 ISA 260 Report, the Landscape Services Division of Commercial Services has been providing services to Shepway District Council since August 2004. Whilst a 'heads of agreement' setting out the broad areas covered by the arrangement was drawn up at the start of the arrangement, no formal service level agreement setting out the detailed service requirement has ever been in place.

In 2006/07, the Authority agreed to the provision of services to the value of £457k in addition to provision of core services of £3,388k. The costs for the additional services were met by the Authority.

We understand that provision of services to Shepway District Council is to be discontinued during 2007/08.

Pension Fund

At the time of writing the audit of the Pension Fund had only just commenced. On completion of this element of the audit any matters arising will be included within this section of the ISA 260 Report.

Unadjusted differences

We are required to report to you all unadjusted differences which we have identified during the course of our audit, other than those of a trivial nature. These misstatements are set out in Appendix B to this report.

Electors' questions

We have received several Electors' Questions since the presentation of our 2005/06 ISA 260 Report. The areas on which we have received questions are:

- The level of the Chief Executive's pay;
- Manston Airport;
- The Authority's investment in the Manston to Virginia flight service; and
- The cancellation of the recycling service in Cherry Lane.

Several of the issues raised have been included in our audit programme and are reported elsewhere in this letter, where appropriate. We have yet to receive the information requested in respect of the query relating to the Chief Executive.

Financial standing

During 2006/07 the Authority under-spent by £7,740k (excluding the delegated schools budget and the unallocated dedicated schools grant) at portfolio level, most of which was due to the re-phasing of revenue funded projects. The main areas of this under-spend were:

- Education and School Improvement – £2,342k
- Environment Highways and Waste - £2,386k
- Finance - £6,535k

This is the second year that the council has reported a significant underspend at portfolio level (2005/06: £8,957k).

The reserves balances as at 31 March 2007 were:

- General Fund - £25,835k (£25,835k in 2005/06)

- Earmarked Capital Reserve - £26,698k (£24,884k in 2005/06)
- Earmarked Revenue Reserves - £81,181k (£74,094k in 2005/06)

Schools' reserves were £67,639k as at 31 March 2007, an increase of £2,013k (3%) on 2005/06.

The Authority therefore scores well for financial standing in our CPA assessment.

Capital budget outturn

Capital outturn for 2006/07 was £237,059k, £39,092k of which was delegated to schools and £5,834k to the Property Enterprise Fund. The total capital budget for the year was £251,896k, although final approval to spend is only given when the project is approved. There was therefore re-phasing of £14,837k into future years.

The Property Enterprise Fund was established in 2006/07 with the aim of maximising the value of the Authority's land and property portfolio. To achieve this, capital receipts from the disposal of non operational property will be reinvested into assets with higher growth potential and also via the strategic acquisition of land and property to add value to the Authority's portfolio. The Fund received an approval to operate a £10m temporary borrowing facility. In 2006/07, £2.714m of temporary borrowing was utilised to finance the activities of the Fund.

Capital outturn can be split across portfolios as shown below.

Portfolio	£000's
Education and Schools Improvement	97,771
Children and Family Services	3,354
Adult Social Services	10,719
Environment, Highways and Waste	37,747
Regeneration and Supporting Independence	24,490
Communities	8,941
Corporate Support and Health	2,332
Policy and Performance	470
Finance	6,309
Total (excluding schools)	192,133
Capital devolved to Schools	39,092
Total	231,225
Property Enterprise Fund	5,834
Total including PEF	237,059

Trading operations

Trading operations have, for the most part, performed well during the year. A total operational surplus of £4,693k was achieved, a 29% increase on 2005/06. Surpluses were achieved by all but 2 of the 11 trading operations, with County Print and Passenger Services reporting small deficits of £48k and £29k respectively.

The directorate's turnover has expanded by 15% during the year to 2006/07, with the majority of this increase being attributable to the LASER business unit. The profit achieved on the LASER turnover in 2006/07 was £1.4m,

The working capital position for the Commercial Services directorate has worsened during the course of 2006/07. Debtors in the Sales Ledger Control Account have increased by 32% to £29.7m, compared with only an 11% increase in creditors in the Purchase Ledger Control Account to £11m. The directorate's overdraft has increased by 83% to £7.8m.

This worsening of the working capital position is mainly attributed to delays in the receipt of invoices from energy suppliers within the LASER trading operation, which means that billing of customers by KCC is in turn delayed. This situation has been exacerbated in 2006/07 as a result of mergers of suppliers which led to further delays in the Authority receiving invoices. There has been no significant increase in the provision for bad and doubtful debts within LASER, as the majority of the debtors are less than 6 months old (£21.2 million of the total LASER debtor of £21.6m), attracting a 0% provision in line with the directorate's bad debt policy.

Although as a division of the Authority there is not a going concern risk regarding Commercial Services, there is a risk that the Division may require additional working capital from central Finance.

We have also noted that the dividend which the directorate is expected to achieve and contribute to the Authority in future years continues to rise and the directorate remains under pressure to exceed these dividends to generate excess profit to invest in capital projects or to enable it to make investments in new or existing operations.

The amount of income received by the Authority from Commercial Services is small compared to the total income receivable by the Authority. However, there is a risk that the Authority is relying upon these trading dividends to fund future activities and that, if Commercial Services are unable to meet the dividend, a funding gap, albeit potentially small, may appear in the Authority's budget.

Working capital position and dividend payment

We understand that the directorate has been reviewing the situation to identify possible solutions to ease the problems with cash flow. This review should be continued, and extended to identify whether all business units are sustainable in the long term, that the risk profile of the business units continue to be acceptable to the authority and whether the financial structure of the division is appropriate to support future plans.

In addition the Authority should continue to closely monitor the financial position of Commercial Services to ensure that dividends are achievable.

The Authority currently only discloses activities undertaken by its Commercial Services directorate as trading operations within the financial statements. However, the Authority also undertakes a number of other activities that meet the CIPFA definition of a trading activity. These include:

- Oakwood House;
- Personnel and Development services;
- Legal Services; and
- Schools Support Services.

The SORP gives the Authority discretion on what it discloses as a trading operation in the financial statements. However, as suggested in our 2005/06 ISA 260 Report, consideration should be given to disclosing some or all of the above in the financial statements as trading operations.

Financial outlook for 2007/08

Gross expenditure of £2,115m has been budgeted in 2007/08 (£1,987m in 2006/07). The main causes of this rise are:

- Pay and price increases - £27.7m
- Government/legislative pressures - £4.6m

- Demand-led pressures & delivering "Towards 2010" targets - £17.4m
- Delegated schools budget - £33.8m
- Service strategies and improvements - £24.4m

Within the 2007/08 budget there are proposed savings and additional income of £41.8m along with an increase in the dedicated schools budget of £38.8m. The above increases in costs have required a council tax increase of 4.95%.

Internal audit

We have maintained a good working relationship with Kent Audit (the Authority's internal audit service) during 2006/07.

As part of our wider assessment of the Authority's control environment we are required to review the internal audit arrangements. We have reviewed the 2006/07 Internal Audit plan and, where applicable to our audit approach, individual audit reports.

We have been able to place reliance on the work performed by Kent Audit in areas of our financial statements audit. This enables us to perform a more focused audit in higher risk areas and to minimise any risk of duplication of work.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. At the time of writing this report the most significant weaknesses in the internal control systems that we wish to bring the attention of members are set out below.

Communities budget monitoring

Communities was a new directorate created during the restructuring. Communities has had a number of new staff appointed to senior positions and the new systems and processes have taken time to bed in. Of the 20 units within the Communities directorate, 5 have not supplied budget monitoring returns since the restructuring on 1 April 2006. As a result, under

or over spends on budget may not be identified and appropriate action may not be taken to address adverse variances.

Monitoring of IT network activity

There is limited evidence of proactive and formal monitoring of IT network activity, powerful access to, and changes to, the IT environment. There is, therefore, a risk that unauthorised or unusual activity will not be detected promptly.

Review of IT segregation of duties

There has been no periodic review of the segregation of duties for users of the IT network to ensure that access to sensitive or conflicting functions has been prevented. This may provide an opportunity for fraud or misuse that could be prevented.

Standards of Financial Conduct and the Prevention and Detection of Fraud and Corruption

At the time of writing this report we have reviewed the reports produced by Internal Audit for the Governance and Audit Committee on cases of fraud and irregularity that they have investigated. There have been no other matters raised in this area in the period.

The Legality of Financial Transactions

At the time of writing this report and with the exception of matters raised with us by electors, and those which we have discussed with officers, there have been no matters raised in this area in the period.

Use of Resources

Work performed

In accordance with the Code of Audit Practice, we have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment for CPA:
 - Financial Reporting
 - Financial Management
 - Financial Standing
 - Internal Control
 - Value for Money
- Mandatory Data Quality Review work
- Review of the Statement on Internal control
- Audit of the Best Value Performance Plan (the Authority's Annual Plan).

Use of Resources Opinion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. Our conclusion is based on the use of resources assessment undertaken in October 2007 as part of the CPA process and updated as necessary, our Local Government data quality work, and other information that came to our attention during the course of our audit work.

At the time of writing this report, we intend to issue an unqualified use of resources conclusion.

Use of Resources Assessment

During 2006/07 we have completed the annual Use of Resources assessment for the Authority. This assessment was submitted to the Audit Commission and formed part of the overall CPA assessment. This assessment covers five key areas:

- Financial reporting;
- Financial management;
- Financial standing;
- Internal control; and
- Value for money.

Overall the Authority achieved a level 4 score. This was an excellent result and officers should be congratulated for their efforts in achieving this score.

The score is broken down into the following scores for each Use of Resources area as follows:

- Financial reporting - 4
- Financial management - 4
- Financial standing - 4
- Internal control - 3
- Value for money – 4

Targeted work

During 2006/07 we have also undertaken or have commenced several pieces of targeted performance work. These include:

- A review of Highways Management;
- A Value for Money (VfM) review of the Schools Clusters Arrangement;
- A VfM review of Libraries;
- A VfM review of Waste Management;
- A VfM review of Learning Disabilities Day Care;
- Review of Carbon Management Policies; and
- The provision of risk management training.

The results of the VfM review of Schools Clusters Arrangements have been reported to Members at a previous Governance and Audit Committee meeting. [The remaining reviews are still in progress and the findings from these reviews will be reported to Members or Management, as appropriate.](#)

Data Quality work

At the time of writing the Stage 1 of the Data Quality work had only just commenced. The outcomes of this work will be reported in the final ISA 260 Report.

Statement on Internal Control

Local Authorities are required to produce a Statement on Internal Control (SIC) which is consistent with guidance issued by CIPFA / SOLACE. The SIC was included in the financial statements.

We reviewed the SIC to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Best Value Performance Plan

Our work on the 2006/07 Best Value Performance Plan (BVPP), issued by the Authority in June 2006. Our audit report on the BVPP was issued in December 2006 and concluded that the Best Value Plan was prepared in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice. The work on the 2007/08 BVPP forms part of the 2007/08 audit to be undertaken by the Audit Commission as part of their 2007/08 Audit Plan.

Audit plans and fee update

Audit Plan 2006/07

We issued our Audit Plan for 2006/07 and presented it to Members on 30 June 2006.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2006/07. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2006/07

We reported our fee proposals as part of the Audit Plan for 2006/07.

Our actual fees are expected to be in line with our proposals.

Our fees charged were:

	2006/07 Outturn	2006/07 Fee proposal
Accounts	£253,098*	£253,098
Use of Resources	£125,440	£125,440
Total	£378,538	£378,538

* Subject to the successful completion of the financial statements audit and the assumptions set out in the 2006/07 Joint Audit and Inspection Plan still being met.

The fees set out above do not include an amount of approximately £12,000 charged by the Audit Commission's Relationship Manager.

In addition, we performed work which fell outside of the Code of Audit Practice relating to a review of Passenger Services. Our fee for this work was £24,134.

Appendix A: 2006/07 targeted audit work

Below we set out the status of the targeted audit work that we have completed or are currently completing as part of 2006/07 audit plan:

- Value for Money (VfM) review of the Schools Clusters Arrangement – Report has been issued as final and presented to members.
- The provision of risk management training – No report is to be issued as part of this work.
- Review of Highways Management – Report has been issued as final to management.
- VfM review of Libraries – Report is in draft format and is with management for their responses.
- A VfM review of Waste Management - Report is in draft format and is with management for their responses.
- A VfM review of Learning Disabilities Day Care – Fieldwork is well advanced.
- Review of Carbon Management Policies – Fieldwork is in progress.

Appendix B: Summary of unadjusted differences

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
CORPORATE SERVICES				
<p>Prepayments – Charges for the final week in March and quarter 1 for various properties rented by the Chief Executive’s directorate have all been accounted for as a prepayment.</p> <p>The rent for the last week of March should actually be accounted for as 2006/07 expenditure.</p>	<p>Rent Expenditure £76,572</p>			<p>Prepayments £76,572</p>

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
<p>Debtors - A debtor has been set up for re-claiming of damages paid by KCC on a property at Foster Street. Whilst evidence from the external lawyer has suggested the money will be reclaimed, the time elapsed since the damages were initially paid (in 04/05) does create an element of doubt. However, no bad debt provision has been set up against this debt. The adjustment assumes a 100% specific provision against this debt.</p>	<p>Bad and Doubtful debt expense £71,230</p>			<p>Bad and doubtful debt provision £71,230</p>
<p>Long term debtor for the police HQ roof - In 2005/06 KCC included expenditure in their accounts for the costs of emergency repairs to the Kent Police HQ roof. As the building originally belonged to KCC and was designed with KCC input, it was argued they were liable for repairs. The insurance claim in respect of this expenditure is included as a debtor in the 2006/07 accounts. However, as no confirmation has been received from the insurers</p>	<p>Corporate Services Income £ 417,379</p>			<p>Long term debtors £ 417,379</p>

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
that this will be paid, the reimbursement is not 'virtually certain' and should not be recognised as a debtor.				
COMMERCIAL SERVICES				
<p>Miscellaneous provision for excess mileage - This provision relates to excess mileage on vehicles transferred from Corporate Services in 2004/05. Given that the charge is not expected to be levied until the vehicles are returned, the entire provision is being held for 6 years following the date of transfer.</p> <p>The total estimated cost of the excess mileage at the time of the transfer was £153,360. However, a provision for £175k is included in the accounts. The difference between the estimated cost and the actual provision should be written back.</p>		<p>Commercial services income £21,640</p>	<p>Miscellaneous provisions £21,640</p>	

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
ENVIRONMENT AND REGENERATION				
Creditors - A capital creditor for Ringway infrastructure services was set up at year end. It was subsequently realised that this creditor should not have been set up.		Expenditure £20,237	Creditors £20,237	
COMMUNITIES				
Income - Two post year end income receipts (amounting to £7,156 & £960) relating to 2006/07 have not been included as year end debtors.		Income £8,116	Debtors £8,116	
Short-term debtors - A payment in advance was incorrectly classified as a sundry debtor.			Debtors (payment in advance) £114,331	Debtors (sundry debtors - general) £114,331
Creditors - A £35,000 creditor was raised in respect of a new joint post of Website Officer to be shared with Kent Police. The officer has yet to be appointed, so the associated expenditure represents a roll forward of budget rather than a true year end creditor.		Expenditure £35,000	Creditor £35,000	
Net effect	£565,181	£84,993	£199,324	£679,512

Appendix C: Use of Resources conclusion

The Audit Commission has published 12 Code of Practice criteria on which auditors will be required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its Use of Resources.

These code criteria are linked to the CPA and Data Quality Review Key Lines of Enquiry (KLoEs). A score of Level 2 or higher under the KLoEs will result in an assessment of adequate for the purposes of the Code criteria. The Code criteria and the linked KLoEs are shown in the table below:

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
1	The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	N/A	N/A	Adequate
2	The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	N/A	N/A	Adequate
3	The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	N/A	N/A	Adequate
4	The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	[LG DQ Stage 1]	1 / 2 /3 / 4	TBC – Data Quality work is still in progress
5	The body has put in place arrangements to maintain a sound system of internal control	4.2	3	Adequate

Code Criteria	Description	Associated KLoE	CPA Score	Use of Resources Conclusion
6	The body has put in place arrangements to manage its significant business risks.	4.1	3	Adequate
7	The body has put in place arrangements to manage and improve value for money.	5.2	3	Adequate
8	The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	2.1	4	Adequate
9	The body has put in place arrangements to ensure that its spending matches its available resources.	3.1	4	Adequate
10	The body has put in place arrangements for managing performance against budgets.	2.2	4	Adequate
11	The body has put in place arrangements for the management of its asset base.	2.3	3	Adequate
12	The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	4.3	4	Adequate

Appendix D: Summary of recommendations contained in this letter

Page	Recommendation	Management Response	Target Implementation Date
8	<p>Contract Services pension provision</p> <p>The £455k 'provision' currently set aside to meet the cost of the Contract Services pension liability should be transferred to a Contract Services Pension Reserve to prevent double counting.</p> <p>We recommend that a thorough review is carried out to ensure that all relevant information has been disclosed to the actuary for both this and the full pension fund, to allow them to carry out and prepare accurate and complete FRS 17 figures to meet the disclosure requirements of the standard.</p>		
8	<p>Pension liabilities</p> <p>We recommend that the Authority carries out a thorough investigation of pension fund information supplied to the actuaries to ensure that it is meeting its obligation to supply its actuaries with full details of its pension obligations.</p>		

Page	Recommendation	Management Response	Target Implementation Date
9	<p>Kent Police HQ roof</p> <p>Due to the uncertainty surrounding the insurance claim for £417k, the income and associated debtor should be removed from the 2006/07 financial statements.</p> <p>When discussions with the insurer are concluded, the authority should enter into discussions with Kent Police Authority to resolve the issue. Any costs which are likely to be incurred should be provided for within the budget and medium term financial plan and in turn the financial statements.</p>		
9	<p>Prepayments</p> <p>The Authority should review its accounting treatment for prepayments and consider whether it would be more appropriate to separate out expenditure relating to the year of account on a daily, rather than a monthly, basis.</p>		
10	<p>Bad and doubtful debt provisions</p> <p>The Authority should review its policies for providing for bad and doubtful debts to determine whether these are adequate. The policy should be communicated to all directorates to ensure that it is consistently applied. Where directorates feel that they require their own policy for providing bad and doubtful debts this should be fully documented, applied consistently and communicated to the relevant officers.</p>		
10	<p>Accounting for archives and libraries IT service</p> <p>The directorate finance teams should review any new contractual arrangements, or changes to existing arrangements, to ensure that the accounting treatment adopted is in line with financial reporting standards.</p>		

Page	Recommendation	Management Response	Target Implementation Date
13	<p>Working capital position and dividend payment</p> <p>We understand that the directorate has been reviewing the situation to identify possible solutions to ease the problems with cash flow. This review should be continued, and extended to identify whether all business units are sustainable in the long term, that the risk profile of the business units continue to be acceptable to the authority and whether the financial structure of the division is appropriate to support future plans.</p> <p>In addition the Authority should continue to closely monitor the financial position of Commercial Services to ensure that dividends are achievable.</p>		

In the event that, pursuant to a request which Kent County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Kent County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Kent County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Kent County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2007 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to the United Kingdom firm of PricewaterhouseCoopers LLP (a limited liability partnership) and other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.