Annual governance report

Kent County Council

Audit 2011/12

audit commission

Contents

Key messages	3
Before I give my opinion and conclusion	5
Financial statements	7
Value for money	22
Fees	39
Appendix 1 – Draft independent auditor’s report	40
Appendix 2 – Uncorrected errors	46
Appendix 3 – Corrected errors	47
Appendix 4 – Draft letter of management representation	51
Appendix 5 – Glossary	54
Appendix 6 – Action plan	57

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements, including the Kent Pension 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.

Financial statements

As at 17 July 2012 I expect to issue an unqualified audit opinion.

The financial statements submitted for audit on 11 June 2012 were of a good quality. The Council did well to produce the accounts within this short timescale although the Annual Governance Statement was not received until 26 June. During the audit I identified a small number of errors in the financial statements. Management has agreed to adjust the financial statements for all but one of the errors. As in previous years, officers were helpful and quick in responding to audit queries which has enabled the audit to be delivered in a timely way.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

However, as in 2010/11, 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.

Certificate

I am unable to issue the certificate for 2011/12 as elements of the audit are not yet complete. These are:

- WGA report not yet issued; and
- Pension Fund annual report.

I expect to complete the outstanding work and report my findings to management by end September 2012. I plan to issue my certificate by 5 October 2012.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit 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 ES 1 (revised) - Integrity, Objectivity and Independence.

As reported to you in my 2011/12 Audit Plan I am aware of the following relationships that might be perceived to constitute a threat to the auditors' independence and that I am required to report to you. I put in place the following safeguards to reduce any perceived threat.

Table 1: **Threats and safeguards**

Threat	Safeguard
The mother of a Trainee Auditor engaged on the audit, is a retired Head Teacher and governor at a Kent County Council school. She is currently Acting Head Teacher within an LA maintained school.	I confirm that the Trainee Auditor has not undertaken or reviewed any work relating to education or payroll in this area.
The wife of a Principal Auditor engaged on the audit, use to work within the Council's estates team, monitoring rental income. She left the Council in October 2011. In addition, the Auditor's mother currently works at Oakwood House.	I confirm that the Principal Auditor has not undertaken or reviewed any work relating to rental income, Oakwood House or payroll of these areas.

During the year the Audit Commission's Audit Practice undertook non-audit work for the Council for a fee of £2,500. The Audit Commission reviewed the Gateway project as an Advice and Assistance review.

I ask the Governance and Audit Committee to:

- take note of the adjustments to the financial statements included in this report (appendices 2 and 3);
- approve the letter of representation (appendix 4), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 6).

Financial statements

The Council's financial statements, which include the Kent Pension Fund accounts, and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

My audit seeks to ensure that the accounts are materially correct and present fairly the financial transactions of the Council in 2011/12. I apply a concept of materiality to the audit which is defined at appendix 5. For the 2011/12 accounts I set materiality levels as follows: £31.7 million for the Council and £16.5 million for the Pension 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 2011/12 the triviality threshold is set at £317,000 for the main statements and £165,000 for the Pension Fund.

Where I identify errors above this triviality threshold, under auditing standards I must request management to amend the accounts. Where management chooses not to do so, and the Governance and Audit Committee agrees, I request a written representation from the Committee as to whether it believe the effects of the uncorrected misstatements are not material individually and in aggregate.

Uncorrected errors

My audit work identified one uncorrected error in relation to a provision for VAT (£0.383 million). Further information is reported in Appendix 2 of the report.

Corrected errors

I identified a number of errors in the financial statements, some of which were material, and impact on the primary statements and disclosure notes. In my opinion, the errors are not indicative of management bias nor indicate a particular weakness in your arrangements and do not require detailed consideration by the Committee. However, for completeness and information, I highlight the amendments in appendix 3 and tables 2 and 3. Officers identified two errors in the accounts presented for audit and brought this to my attention. I have shown this separately in appendix 3.

Significant and specific risks and my findings

In my 2011/12 Audit Plan presented to you in March 2012, I reported the significant and specific risks that I identified relevant to my audit of your financial statements. A significant risk is a risk that requires special audit consideration, on the grounds that it is highly likely that the risk will be realised, and will result in a material misstatement in the financial statements. A specific risk occurs where I identify an issue related to a particular item in the financial statements. In tables 2 and 3, I report to you my findings against each of these risks for the Council and Pension Fund accounts respectively.

Table 2: **Kent County Council - risks and findings**

Risk	Finding
SIGNIFICANT: Valuation of property, plant and equipment (PPE) The Council is required to value PPE at fair value (with some exceptions such as infrastructure assets and assets under construction which are valued at historical cost). There is a risk that the valuation reported in the financial statements will be materially misstated due to: ■ valuation of operational land and buildings is an estimate and even small changes in the estimation techniques employed by your Valuer can have a material impact on the value of PPE disclosed in the financial statements; ■ misclassification of assets leading to incorrect valuation basis; ■ failure to update valuations between formal revaluation dates; ■ valuation of leasehold properties reflects an interest in the property rather than in the lease;	I completed the following work to gain assurance over the PPE valuations in the 2011/12 financial statements: ■ evaluated the work of the valuer the Council relied upon to produce the financial statements; ■ used my own expert to assess the reasonableness of the valuation assumptions of your valuer; ■ undertook detailed testing of the valuations and depreciation calculations; ■ reviewed the Council’s approach to identify any impairment to its assets; ■ I reviewed the capital accounting entries and identified classification disclosure errors within the Capital Adjustment Account (note 23).

Risk	Finding
■ misstatement of depreciation due to inappropriate asset lives; ■ failure to apply the code requirements or your own policy on componentisation; ■ inappropriate capitalisation of revenue expenditure; ■ failure to consider impairments; and ■ the accounting entries required to deal with property valuations in accordance with the Code are complex and flow through all the core statements and many of the disclosure notes in the financial statements.	I concluded that PPE is fairly stated within the statement of accounts, subject to the correction of the two matters below: ■ Note 23 contained incorrect disclosures for revaluation losses; use of capital receipts to finance capital expenditure; capital grant unapplied account; adjusting amounts written out of the revaluation reserve and movements in the market value of investment properties. All the errors were contained within the note and did not impact on the closing CAA balance. Officers have corrected the detailed disclosures of the note. ■ As part of their management review of the draft financial statements, officers identified a £4 million error in the revaluation reserve. The asset registers did not reconcile to Oracle due to an incorrect accounting entry being put through the revaluation reserve code on the General Ledger. This error has now been corrected.
SIGNIFICANT: Accounting for pension assets and liabilities The Council is required to account for post retirement benefits under International Accounting Standard (IAS) 19 and the entries in the financial statements relating to your share of the Kent Pension Fund assets and liabilities are among the largest in those statements. The entries are based on assumptions determined by the Council in consultation with the Fund's actuary and on the information provided to the actuary regarding staff numbers, contributions, retirements and early retirements and investment performance during 2011/12. There is a risk that inappropriate changes to the assumptions used by the actuary or errors in the information provided to him will result in your share of the assets and liabilities being materially misstated. The accounting entries in respect of pension assets and liabilities are complex and flow through the core statements and several disclosure notes.	I reviewed your management controls to account for pension assets and liabilities. I used my own expert actuary to evaluate the reasonableness of the assumptions used by your actuary and the resultant estimates included in the accounts. I undertook audit procedures to check that information provided to the actuary is complete and accurate. I did not identify any issues that I need to be report to you.

Risk	Finding
SIGNIFICANT: Management override of controls International Standards on Auditing (UK and Ireland) 240 presumes that a risk of management override of controls is present in all entities and requires auditors to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements; reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	I completed the following work to gain assurance over the risk arising from the management override of controls: ■ undertook testing of accounting and adjustment journals raised in year and as part of the closedown procedures to produce the financial statements; ■ reviewed accounting estimates for possible bias; and ■ gained an understanding of the business rationale of significant transactions that appear to be unusual. My testing did not highlight any instances of deliberate bias in presenting the results of financial transactions within the statement of accounts.
Heritage Assets The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. Heritage assets include tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture. There is a risk that the Council may be unable to identify and account for all such assets.	I reviewed the controls the Council put in place to identify, value and account for heritage assets in accordance with FRS30 and the Code. I did not identify any issues from my work that need to be bought to your attention.
Accounting for schools Schools are managed through a variety of governance arrangements and differences in those arrangements have implications for the accounting treatment. You account for academies, foundation and voluntary aided schools in accordance with IAS16 which means these schools are not on your balance sheet. Many schools seek to become Academies and there is a risk that you do not give sufficient consideration to schools that change status during the year.	I completed the following work to gain assurance over accounting for schools: ■ reviewed the management controls you have in place to recognise changes in status and the effective date of such changes; ■ reviewed the Council's consideration of schools and the IAS 16 recognition criteria and consistency with your accounting policy; and

Risk	Finding
This could result in Schools being included or omitted from your balance sheet incorrectly. Because the value of schools is significant and there have been many changes of status in the year, the effect on the balance sheet is material.	■ undertook tests of detail on the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria. During the year 20 schools with a value of £72 million achieved Academy status. All were correctly removed from the Council's Balance Sheet. I identified seven schools financed by Public Finance Initiative (PFI) scheme that are foundation trust schools that continued to be accounted for on the Council's Balance Sheet. These schools have a value of £132.9 million. The Council decided to keep these schools on its Balance Sheet as it maintains the liability for the PFI. I also identified one foundation school with a value of £29 million that transferred to trust status in March 2012 that remained on the Balance Sheet at year end. In accordance with accepted accounting practice these assets should not be recognised on the Balance Sheet as: ■ the Council does not have any control over the education services provided at the schools or the employment of teachers (in accordance with IFRIC12); and ■ the Council does not hold the title deed for this property and does not own the asset (IAS16). The Department for Education requires title deed to transfer to the Board of Governors when the foundation school is created. After discussion, officers accepted audit's interpretation of the accounting standards and amended the Balance Sheet, and adjusted comparative information through a prior period adjustment. I have reviewed the accounting entries to remove the assets from the Balance Sheet and confirm that all entries have been correctly made. Accounting for schools has been the subject of debate for local

Risk	Finding
	government accountants for a number of years. CIPFA hoped to update and clarify its 2011/12 Accounting Code of Practice to clarify the accounting practice for schools, but this was delayed. CIPFA intends to clarify the position for 2012/13. The Council's accounting treatment for the different types of schools follows the current advice issued by CIPFA.
Existing PFI schemes: Material adjustments At the inception of a PFI scheme, the expected accounting entries for the duration of the contract are modelled. There are four common events that require the accounting model (and accounting entries derived from the model) to be updated. These adjustments may be material to the Council.	I evaluated the design and implementation of controls and I performed procedures to satisfy myself that your financial statements are materially stated in respect of your disclosure of PFI schemes. I identified that that Council does not have sufficient arrangements in place to correctly capitalise the lifecycle costs of its PFI schemes. The Council is currently capitalising all lifecycle costs as set out in the operator's financial model. However, the model only provides projected costs and is not a reflection of the actual costs or the timing of when the costs are incurred. Although this cannot lead to a material error in the 2011/12 financial year, if the Council continues to capitalise lifecycle costs on this basis it could lead to a cumulative material error in the future.
Provisions The Council had nearly £50 million of long and short term provisions at 31 March 2011. Provisions are by their nature estimates of future liabilities and are charged against the General Fund which means they have an immediate effect on the outturn in the year. There is a risk that if the estimates that underlie provisions are unreasonable, the general fund will be materially misstated. Provisions are accounted for in accordance with IAS37.	I reviewed the management controls you have in place for the creation of provisions at the year end both centrally and in the directorates. I undertook sample testing to satisfy myself that the provisions are: ■ reasonable estimates of future liabilities in accordance with the Code and IAS37; and ■ have been accounted for correctly as short and long term provisions. I identified the following issue from my testing. ■ A provision has been set up for £383,000 against a potential liability for French VAT in respect of income from a property owned by the

Risk	Finding
	Council in France. It is not clear whether the Council has to register to pay VAT and therefore whether a liability exists. In my view, the criteria to create a provision under accounting standards have not been met. Rather, the potential liability should be disclosed in the financial statements as a contingent liability. This is an unadjusted error in the 2011/12 financial statements and is included in appendix 2.
Capital grants used to fund Revenue Expenditure Funded form Capital Under Statute (REFCUS) We noted an error in the 2010/11 statements in respect of the treatment of capital grants used to fund REFCUS. Capital grants used to fund REFCUS had been aggregated with other capital grants in the taxation and non specific grants line in the Comprehensive Income and Expenditure Statement (CIES) rather than being treated as revenue grants and taken to the relevant service line. REFCUS expenditure amounted to £145 million in 2011/12 and much of it was grant funded. Therefore, the CIES service lines were materially mis-stated as was the taxation and non specific grant income line. The bottom line of the CIES, however, is unaffected by this. We have discussed with officers the 2011/12 statements and the arrangements in place this year to ensure that capital grants used to fund REFCUS are treated as revenue grants. The error in the comparatives will need to be amended and there is a risk to the opinion that officers will fail to apply the requirements of IAS 8 and the Code in correcting the prior year error.	I reviewed the management controls the Council put in place to avoid the recurrence of this error and undertook sampling testing of capital additions. The errors identified in the previous year have been corrected in the 2010/11 restatement of the capital grants. The grants have been treated as revenue and matched to the service expenditure in the net cost of services. I did not identify any other issues that I need to bring to your attention.
Foster care and adoption payments system Last year, I identified weaknesses in the operation of key controls within foster care and adoption payments systems. These systems are designed to control expenditure of some £40 million per year.	There is a lack of auditable controls in this system which the Council is aware of. The foster care system covers two main areas of expenditure totalling £26 million: foster care and adoption. I undertook detailed

Risk	Finding
My documentation and walkthrough of the foster care and adoption payments system this year has shown that there has been no improvement in auditable operating controls. This does not necessarily mean that there are no controls operating at all, but it does mean that there are no controls that I can vouch to provide audit assurance.	substantive testing to invoices and confirmed that the foster care and adoption payments are supported by original documentation and are correctly stated in the accounts.

Recommendation
R1 The Council should ensure that lifecycle costs are based on the actual costs incurred and the actual timing of those costs.

Table 3: **Kent Pension Fund - risks and findings**

Risk	Finding
SIGNIFICANT: Actuarial present value of retirement benefits The present value of retirement benefits is a material item in your financial statements. The complexities involved in the valuation means that there is a risk that the financial statements may be materially misstated.	I completed the following work to gain assurance over the risk. ■ Reviewed the management arrangements for instructing your actuary and the controls over the completeness and accuracy of information provided to the actuary. ■ Evaluated the work of your actuary, Barnett Waddingham. ■ Used my own actuarial expert to assess the reasonableness of the actuarial assumptions used by Barnett Waddingham. ■ Reviewed the accounting entries to ensure they agreed to the IAS 26 valuation report. I identified that due to changes in the actual value of the scheme following submission of the draft financial statements to the actuary the fair value of the scheme did not agree to the actuarial valuation report. The actuary has revised the IAS26 valuation based on the final figures

Risk	Finding
	and the financial statements now agree to the valuation by the expert.
SIGNIFICANT: Actuarial valuation of pension liability The actuarial valuation of the pension fund liability is a material accounting estimate in the financial statements. The actuary uses a number of assumptions to calculate this highly complex valuation. In addition, the valuation reports in 2010/11 were materially inconsistent for a small number of admitted bodies and revised valuations were provided by the actuary.	I confirmed the accuracy and completeness of the valuation of the pension liability to the actuary's report. I assessed the reasonableness of the actuary's work by using my own actuary expert.
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 2011 at £191 million.	I carried out audit procedures to place reliance on the work of your valuer as an expert. I also verified the accounting entries in the financial statements to the valuation report. I did not identify any issues that need to be bought to your attention.
Investment commitments The pension fund has committed money to four private equity investments. These are equity securities in operating companies that are not publicly traded on a stock exchange.	I reviewed the valuation of the investments and sample tested entries in the financial statements against the year end investment commitment reports and an independent source. I identified the following from my testing. ■ The draft financial statements included estimated year end investment balances. Update valuations were received in early July for private equity and infrastructure and pooled property investments. As the differences were above my triviality level these have been amended in the financial statements: – Henderson £8,490,100 to £8,441,500; – Partners Group 2009 £22,587,121 to £24,120,282 and 2011 £4,086,695 to £3,890,288; – HarbourVest HIPEP VI £3,997,604 to £3,880,262 and IX

Risk	Finding
	£1,494,132 to £1,454,120; and – Aurora £16,079,551 to £15,963,259. ■ Sample testing of exchange rates identified that an incorrect rate was used to convert the value of the 2009 investment held with Partners Group from Euros to £ sterling. This led to the year end valuation being overstated by £1.7 million. ■ The disclosure in note 22 for the contractual commitments with the private equity investment bodies has been improved to give a fuller description of the investments and commitments in the currency they were made and the converted amount as £ sterling. These issues have all been corrected in the revised statement of accounts presented to members.

Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has established adequate arrangements to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the minimum requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework. I have offered to provide examples of best practice statements to improve the AGS in future years; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I did not identify any significant weaknesses in internal control. I did however, identify the following weakness.

Table 4: **Internal control issues and my findings**

Description of weakness	Potential impact	Management action
Accounts receivable system: The monthly reconciliation of aged debt to the GL (Oracle) was not completed in March 2012 as the officer responsible for the reconciliation left the Council. Officers in the accounts receivable team decided the reconciliation did not add anything to the controls operating in the system. However, from an audit perspective, the absence of this control created a lack of audit assurance.	The accounts could be incomplete which could lead to a material error.	Finance officers acted promptly when the matter was raised and liaised with the Oracle systems administrator. A retrospective reconciliation of the aged debt to the GL was undertaken. This showed that the untimely operation of the control did not give rise to any error in the 2011/12 financial statements. Central finance officers have established an improved reconciliation process for the 2012/13 financial year. This control will sit within the systems finance team instead of the receivables team and be completed on a monthly basis.

Recommendation
R2 Officers should reconcile the accounts receivable system to the GL on a monthly basis using the improved process.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

I highlight the following themes for your attention: accounting disclosures compared with best practice; accounting policies and compliance with laws and regulations.

Table 5: **Kent County Council - Other matters**

Issue	Finding
Code of Practice on Local Authority Accounting 2011/12 disclosure requirements The Code sets out expected best practice for the disclosure of financial transactions in an authority's accounts.	I reviewed the draft financial statements against the requirements of the Code disclosure checklist. I identified a relatively large number of narrative issues where the Council's disclosure did not meet expected best practice. The Council has amended its accounts for these. Some of the more significant changes are set out in the four bullet points below.
■ Non-distributed costs – Comprehensive Income and Expenditure Statement	The disclosure in the Comprehensive Income and Expenditure Statement for non-distributed costs was the net position for 2011/12. This did not disclose the significant expenditure of £19.091 million and income of £16.043 million which I believe should be separately shown in line with the Code. This has been amended.
■ Financial instruments - note 16 (main statements) - Kent Pension Fund, Financial instruments - notes15 and 16	Main statements note 16: The financial instruments note presented for audit: ■ incorrectly excluded short term debtors of £149.228 million and long term debtors of £61.172 million; ■ incorrectly included short term creditors for payments in advance of £32.951 million and deferred income of £2.624 million; ■ included correctly collateral held by the Council valued at £71.1 million in respect of Social Services clients on whose behalf the authority is paying for residential care. However, the Council does not hold sufficient documentation to support this disclosure. I identified that the collateral is overstated by £14 million. At the balance sheet date, secured debt against this £57.1m was £7.7m; and ■ did not set out in narrative on the nature and extent of risks arising from financial instruments. Pension Fund notes 15 and 16: The notes: ■ incorrectly included freehold property totalling £222.575 million and all related

Issue	Finding
	accounting entries (note 15); ■ did not include cash invested by JP Morgan totalling £51.670 million within the credit risk disclosure table and included an incorrect reference to USD (note 16); ■ incorrectly reported the fair value through profit and loss of financial assets with different values for the carrying and fair values. These should be reported as the same figure at market value (note 16); and ■ prior year comparators for cash (£60.943 million) and overseas equity investments value on increase (£578.517 million) as at 31 March 2011 were misstated. The disclosures should be £73.659 million and £583.615 million respectively. All required amendments have been made to the financial statements.
■ Related party transactions – note 36	Related party transactions with the Kent Pension Fund were incorrectly disclosed: ■ income for pensions administration, investment monitoring and other services should be £2.612 million; and ■ cash held by the Council on behalf of the Pension Fund should be £3.313 million. This is cash that has been paid over to the Council but should be in the Pension Fund cash balance as at 31/3/12. Further information is included in Appendix 3 of the amendments required for the cash balance. The disclosure errors in the note have been amended.
■ Kent Pension Fund, current assets - note 18	The note should disclose the amounts owed by other public sector bodies and those external to general government. The note has been correctly amended to disclose the debt profile in this way.
Accounting policies **Accounting policies set out the agreed practice to be followed in the preparation of accounts. It is important that actual practice follows the stated policies and that policies are disclosed for all key matters.**	Kent Pension Fund note 2: I reviewed the summary accounting policies of the Pension Fund and identified the following issues: ■ narrative that had previously been included in the financial statements for the foreign currency transactions policy (note 2i) was incorrectly omitted in 2011/12 policy; and ■ the actual accounting treatment adopted in 2011/12 for cash and cash equivalents (note 2j) was not in line with the policy.

Issue	Finding
- Kent Pension Fund, note 2 - critical accounting judgement (main statements)	The accounting policies have been correctly revised. Critical accounting judgement: Many entries within the accounts are inherently uncertain due to estimation and interpretation of accounting standards. In these cases, where accounting judgement is applied, the reader of the accounts is informed of this by disclosure in the accounting policies. The Council identified provisions as an area of critical judgement in note 2 of the financial statements. It has an early retirement provision of £12 million. Having examined this provision, I think the amount could and should be treated as a creditor. The Council argues that the liability is not as clear cut at the balance sheet date and a provision is appropriate. A potential change between provisions and creditors would affect the balance sheet. Given the disclosure of accounting judgement and my understanding of the issue, I have not asked for a change to the accounts.
Compliance with laws and regulations: **Preparation of the accounts assumes that all material laws and regulations are followed.** **- Kent Pension Fund,** Contributions receivable - note 5 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.	I reviewed the timing of contributions receivable by the pension fund and sample tested the contributions receivable to verify the accuracy and classification of these in the financial statements. Some 4.7% of contributions received in 2011/12 from admitted and scheduled bodies of the scheme breached regulation 42(2). This includes seven larger scheduled bodies. Officers monitor this on a monthly basis through a key performance indicator and contact relevant bodies to ensure they are aware payment is late. The timeliness of receiving contributions within 19 days improved during 2011/12 financial year. I also noted a classification error in the disclosure of contributions receivable. Two schools that transferred to foundation school status (and therefore should be a scheduled body) are still shown as KCC schools. Due to the analysis of KCC schools contributions it is not possible to identify the amount relating to the two schools. However, I can confirm that this could not be material as the schools would not pay more than £100,000 a month so the maximum error in 2011/12 (and the prior year) would be £2.4 million. This is an uncertainty in the classification of contributions receivable and does not impact on the total contributions receivable in 2011/12.

Recommendations

R3 The pension fund bank reconciliation process should ensure that cash held on behalf of the fund by the Council should be transferred back to it on a regular basis, with the cash held as at 31 March being shown as cash in transit in the reconciliations and financial statements.

R4 Officers should ensure that the requirements of IAS32 (Financial Instruments: Presentation) are met when producing the financial instruments notes for the Council and Pension Fund.

R5 Officers should continue improvements made in the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days.

Whole of Government Accounts

In addition to my audit of your financial statements, I am also required to audit and report to the National Audit Office on your Whole of Government Accounts return. The Council has to provide the unaudited WGA return to the Department of Communities and Local Government by 27 July 2012. I plan to complete the procedures specified by the National Audit Office by 4 October 2012.

Value for money

I am required to conclude whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my 2011/12 Audit Plan I reported to you the risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

1. Financial resilience: The organisation has proper arrangements in place to secure financial resilience.

Focus for 2011/12: 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.

2. Securing economy efficiency and effectiveness: The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2011/12: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Risks and my findings

Risk	Audit response
Financial challenge The external financial environment remains a very challenging one with the savings targets continuing to increase in future years. The Council is on track to successfully deliver £95 million of savings in its 2011/12 budget but is facing increasingly difficult tasks in reducing areas of spending. Members and officers will need to consider new ways of working and delivering services to meet the financial challenge.	I will review key financial information to ensure the Council is well placed to meet the continuing financial challenges it is facing. This will include: ■ whether the assumptions set for the medium and long term financial planning are robust; ■ monitoring of its savings plans and whether these are sufficient to achieve £100 million saving required in 2012/13; ■ reviewing the work of the Budget Programme Board; and ■ reviewing equality impact assessment process used to support budget decisions.

Summary of findings

The Council faced a significant financial challenge in the delivery of its 2011/12 budget and has responded well to this challenge. It has demonstrated strong financial control in the delivery of its annual budget. Savings of £95 million were required coupled with ongoing strong budgetary control to deliver a balanced budget. The actual out-turn for the year was an under spend of £16.2 million. This was identified and forecast during the year and was due to the successful delivery of the majority of its planned savings programme and additional unbudgeted savings. Some of the latter reflect projects approved in the 2011/12 budget which ultimately did not proceed. For example: Big Society Fund planned spend of £4 million (rolled forward into 2012/13 budget) and £4.1 million savings from the rephasing of revenue funded capital works. The June 2012 Cabinet meeting approved contributions totalling £8 million to the rolling budget reserve to be spent on highways maintenance following the wet weather (£6 million) and investment in technology and communications (£2 million).

The Council strengthened its financial governance arrangements in 2011/12. It established a Budget Programme Board (BPB), a mixed group of members and officers set up in October 2011. The Cabinet Member for Finance chairs weekly meetings. The initial focus of the BPB was to monitor the budget and hold budget holders to account for their Project Initiation Documents (PIDs) – challenging savings initiatives in 2011/12 that were assessed ‘at risk’. This process was a contributory factor to the delivery of the majority of savings plans in the year. For the 2012/13 budget setting process the Council continued with the PID process. For all projects over £200,000 the responsible directorate/ manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. BPB received 100 per cent of PIDs to support the budget savings for 2012/13. Although it did identify that not all were received in a timely manner and some had to be returned to the responsible officer as they were not of a sufficient quality, in general there was evidence of improvement and an embedding of the process. The full list of savings for 2012/13 reconciles to the Medium Term Financial Plan which totals just over £95 million. A formal review of the 2012/13 PIDs will be carried out in September to ensure the proper Red - Amber – Green (RAG) rating has been assigned by the responsible officer halfway through the year. The focus for monitoring and review of the overall budget continues with the usual budget monitoring process. The delivery of savings during the year is reported to Cabinet in the comprehensive quarterly key activity and risk revenue and capital budget reports. This is supported by monthly exception reports identifying significant adverse and positive variances to the budget. Based on my review of the Cabinet minutes during the year this has proved a successful monitoring process for the savings plans and overall budget out-turn. The BPB has been given a small budget for ‘invest to save’ projects. During the 2011/12 year, two requests were made for funding. The Board has demonstrated that it is effective at challenging the requests as only one bid was successful. There is a clear rationale for the decisions made on both bids.

Arrangements for effective future financial planning are sound. The Council decided to develop three year service strategies for all directorates from 2012/13 to assist in the transformation of the Council’s services against a backdrop of long-term financial decline. These strategies were to be shaped around: vision and innovation; risks and implications; and helping to shape the future. The role of the BPB was to review the service strategies and challenge the plans against set criteria to ensure they were robust. Heads of Service and Directors attended BPB between January and March 2012 to review the PID and service strategy. The forward plan identifies that officers are being recalled as required to monitor the progress of the strategies. CMT identified that a helicopter view was required of the numerous transformation activities the Council was involved in as they recognised the risk for duplication, missed opportunities and potential wasted effort. This is in progress.

Planning for 2013/14 budget has begun. A main reason for developing the BPB was to bring forward the budget setting process; the Council plans to publish the 2013/14 budget for consultation in summer 2012. Early consultation should allow buy in for the required £80 million savings and allow the public to express views for members to consider in their final decisions on the budget. The BPB meetings are minuted and there is a forward work programme. A review of the minutes confirms that actions arising from meetings are followed up at the next meeting and on the whole, action is being taken quickly by the responsible officer or member. BPB reports its work to Corporate Management Team (CMT) at officer level via the Corporate Director of Finance and Procurement and reports are presented to Cabinet and informally to Corporate Board by the Cabinet Member. The reporting mechanisms of the Board should be reviewed to ensure that all relevant officers and members are aware of its work.

A number of fiscal rules have been set by finance to plan the 2013/14 revenue budget. These were reported to and approved by the Full Council as sensible rules to underpin the Council’s constrained financial position. Monitoring of the rules will be undertaken by the BPB. The Council intends to develop similar fiscal rules to apply to its capital programme.

The 2013/14 budget process has built in scenario planning and stress testing over the summer months. The timing of the process should ensure that there is sufficient learning from the consultation and to respond to any central government funding decisions. The medium to long term assumptions appear reasonable for the future financial position. The Council remains prudent in its spending plans and recognises that savings will be more difficult to achieve in the future without cutting services.

The Council has an equality impact assessment strategy and requires all forward plans, strategies and decisions to include an assessment. I have reviewed a number of key assessments to support budget making decisions, including the budget setting process for 2012/13, and have not identified any issues arising from the process.

<table>
<tr><th>Risk</th><th>Audit response</th></tr>
<tr><td>Changing public services agenda
The government plans a number of significant changes to public services to which the Council will need to respond whilst maintaining and improving current service delivery.
The Council’s Medium Term Plan, Bold Steps for Kent, identifies some of the most significant of these changes on the Council’s corporate financial and performance management arrangements including:
■ the increased role in health and relationships with General Practitioners;
■ increased use of personal budgets;
■ mutualisation of service provision;
■ the establishment of the Kent and Greater Essex Local Enterprise Partnership;
■ the piloting of community budgets; and
■ the operation of the big society fund.</td><td>I will monitor any significant changes to the Council’s operating environment and any impact on the Council’s financial plans.</td></tr>
</table>

Summary of findings

The Council working with other stakeholders and partners is responding to the changing legislative environment. The Health and Social Care Act 2012 introduces a new role for local authorities effective from April 2013, for the co-ordination, commissioning and oversight of health, social care and public health. A shadow health and wellbeing board has been established for the last six months. The Board has discussed its role and established governance arrangements. It is also progressing work on the agreement of a joint strategic needs assessment and the development of a joint health and wellbeing strategy. Work is underway to effect the transfer of all current NHS employees in the health and well being team to the Council.

The Local Government Finance Bill 2011 provides for the 'localisation' of council tax benefit from April 2013. From this date, each collection authority will be required to have devised its own scheme of support for low income taxpayers. DCLG will pay grants equivalent to 90 per cent of the present cost of council tax benefit. If the local schemes fail to reduce council tax benefits by 10 per cent, the shortfall has to be met by the precepting and collection authorities in the area pro rata to their share of council tax receipts. For Kent County, this would be approximately £8 million per year. All local authorities in Kent have been working collectively on this issue and in May 2012 through the Kent Forum (comprising the leaders of councils in Kent and their officer advisors) proposals for a common scheme of council tax benefit for the Kent County Council area and risk sharing arrangements were agreed.

Locality Boards have been set up for community budgets. Kent was chosen as one of just 16 areas nationwide to pilot Community Budgets as part of the government's spending review. From 1 April 2011, the Council was given control of these new local budgets, which bring together various funding streams from central government into a single funding pot. Councils are able to decide at a very local level how they can best spend that money to tackle social problems around families with complex needs. The Council has focused funding on the children's preventative agenda for vulnerable families as early intervention in these areas will ensure that ongoing funding is reduced. The sharing of information between agencies should reduce the number of people visiting troubled families. The Budget Programme Board has reviewed a proposal to create a management structure for looking at vulnerable children in the 11-24 year old range with a view to expand into client focused teams.

Risk	Audit response
Value for Money probe In the challenging financial environment described above, the Council must ensure that it achieves value for money in all areas of service provision. The Corporate Director of Finance and Procurement has discussed with the Corporate Management Team potential areas where the Council might benefit from a more in-depth consideration of value for money. In considering these, I have identified two potential areas of significant expenditure which would be relevant to my VFM conclusion: ■ preventative children's services and the impact of the cost on placements; or ■ reactive and proactive highways maintenance. The Council is undertaking work in both these areas, as a result of the OFSTED inspection and re-letting of the Highway maintenance contract respectively.	Following a planning meeting with the Corporate Director of Finance and Procurement, I have reviewed the arrangements within children's services to understand how value for money is achieved.

Summary of findings

Background

The concept of good value for money is a positive relationship between cost and performance. Reviewing value for money profiles comparing the Council to nearest statistical neighbouring councils shows:

- the number of looked after children in Kent in 2010/11 was 54 per 10,000 children (21 per cent higher than in neighbouring authorities) and a 15 per cent increase compared to 2009/10;
- the planned spend per child on looked after children for 2011/12 is six and a half per cent higher than in neighbouring authorities and a five per cent increase compared to 2010/11; and
- the planned spend per child of the adoption service in 2011/12 is ten per cent higher than in neighbouring authorities, and an eight per cent decrease compared to 2010/11.

The profiles indicate that the Council's spend on looked after children is more expensive than at neighbouring authorities because the service is in high demand and there are a high and increasing number of children in the system. There has been a steady increase in the number of looked after children in Kent over the last four years, with a 35 per cent increase since 2006/07. The planned spend in 2011/12 incorporates a £3.5 million investment in services by the Council to support its improvement programme. Further investments are also being made by the Council to implement a new workforce strategy.

Following a critical inspection by Ofsted in October 2010, Kent prioritised improvements in its children's services. The focus of its first improvement plan, commencing in March 2011, was to address the assessment backlog in children's services. The focus of the second improvement plan is on improving the quality of the service delivered and its sustainability by safely reducing the demands on the service. The key themes of the second improvement plan are to:

- maintain the timeliness of assessments and ensure all cases are allocated appropriately;
- reduce the numbers of looked after children and the number of children subject to Child Protection Plans;
- raise the quality of casework and improve care planning and outcomes for looked after children;
- revise the service structure so that services are delivered through a locality-based integrated structure which is fit for purpose, strongly managed, and appropriately staffed;
- put in place a range of preventative services; and
- improve the quality of the adoption service and increase the number of adoptions.

A third improvement plan, which is currently being finalised, focuses on having the right mix of services to meet service user needs.

I have reviewed how the Council is building in value for money considerations to its children's services. I do not make any qualitative judgements on the appropriateness of the Council's response from an operational viewpoint as this is very much the remit of Ofsted.

I have considered the following specific areas as they include many of the key initiatives in the improvement plans:

- work to tackle the assessment backlog;
- specialist children's services restructuring;
- social care workforce planning; and
- changes in management of the adoption service.

Tackling the assessment backlog

The investment made by the Council to reduce the assessment backlog was matched by improved performance. The Council awarded a six month contract in April 2011 for a peripatetic team of 30 social workers and six managers to reduce the number of unallocated cases and the number of incomplete assessments and to restore timely assessment timescales. The peripatetic team contract cost the Council £1.5 million. The additional resources were included in the directorate's budgets and were part of the reason for the increase in the planned spend on looked after children in 2011/12. The Council followed proper procurement processes in the specification and allocation of this short term contract. It chose its supplier based on agreed tender criteria, which included price and quality factors. Positive outcomes have been delivered. The improvement plan updates highlight the progress the Council made in addressing the service backlogs. The backlog of incomplete assessments was significantly cleared by October 2011. The Council reduced unallocated cases and assessments out of timescale by November 2011, meeting its August 2011 Improvement Notice Targets. The Council has successfully maintained its agreed reductions in unallocated cases and timeliness of assessments through to year end. Individual social worker caseloads were significantly reduced following the completion of the contract. The average social worker's caseload was 20.6 cases at March 2012, compared to a target of 20.

Specialist Children's services restructure

The Council is restructuring specialist children's services to create a new structure that is more fit for purpose, strongly managed and appropriately staffed. The restructure seeks to improve the VFM of the service as it is designed to ensure that the right resources are in the right place to deliver the desired results and that there is proper management of resources to avoid waste.

The Council's children's services restructure began in January 2012. Management expect it to be fully implemented by September 2012. It affects the whole service and will significantly alter the way the service is delivered. It includes structural changes for handling initial assessments, building an effective commissioning framework and establishing a range of preventive services. The creation of specialist teams and re-distribution of staff in relation to differential needs and demands across the county has been designed to improve the Council's capacity to effectively manage the service. For example, to facilitate better management of referrals and handling of initial assessments and to ensure the Council has the right amount of staff in the right locations.

Some operational service changes have already been implemented as part of the restructure, which have had a positive impact on the economy and efficiency of the service. These include the establishment of a specialist County Duty Team and a Central Referral Unit, which officers report have reduced both the number of inappropriate referrals to the service and waste of resources through duplication of effort with other agencies. The Council's new specialist County Duty Team (CDT) of social workers went live in May 2011 to deal with all child contacts coming into Kent. The team was set up to apply common thresholds at the point of contact and reduce the number of inappropriate referrals reaching Duty teams. Evidence suggests that the outcomes achieved by the team are in line with its objectives. The CDT has had an impact in reducing the numbers of referrals being made into social care. There was a 26 per cent reduction in referrals in 2011/12, alongside reductions in the number of re-referrals being processed (28 per cent reduction).

A new Central Referral Unit (CRU) went live in January 2012. The CRU brings the CDT and other agencies (including health services, the police and adult services) together under one roof. The aim of the CRU is to facilitate more consistent threshold application between agencies, reduce duplication of effort and promote more effective information sharing. Since the CRU commenced the number of referrals to children's social care have decreased. The CRU has also made a significant impact by reducing the number of inter-agency contacts into social services (eg a 76 per cent reduction in Domestic Abuse Notifications from the Police).

The stated key focus of the restructure is to improve the quality and VFM of the service and the outcomes for children within the existing service resource envelope. However, officers contend the restructure has been designed with potential workload decreases in mind, so that resources can be reduced within the new structure if further caseload reductions are achieved in the future. Planned actions to reduce the caseload and further improve the VFM of the service include increased investment in a range of prevention and early intervention services under a new Preventative and Early Intervention Strategy.

The potential size of any resource reductions have yet to be articulated, as the Council is currently still making changes to improve the service in response to its Improvement Notice. Within the ongoing restructure the Council is considering the relationship between the service workload and optimum resource needs. This includes full consideration of the complexity of individual cases and the experience and competence of staff employed.

Recommendation

R6 Following completion of the service restructure, regularly review staff resources based on service demand changes and resource skills and experience.

Social care workforce planning

The Council has considered value for money in determining the size of and reward arrangements for its social care workforce. Increases in demand for children's services at the Council have led to increased pressures on staffing. One of the Council's key targets for 2011/12 was to improve capacity and capability within social care. Key areas of focus include retaining and recruiting experienced staff, supporting managers and staff training. The Council designed a new Social Care Workforce Strategy for Children's Social Services in May 2011, aimed at making Kent 'the employer of choice' for social work. The strategy incorporates both recruitment and retention. Its objectives are to:

- address vacancy levels in case holder teams (which were 25 per cent in early 2010 and 15 per cent in May 2011);
- reduce staff turnover and minimise the loss of experienced staff; and
- secure the right balance between newly qualified social workers and those with experience.

To inform the new Workforce Strategy the Council prepared an analysis of current staffing levels and a recruitment plan for the next three years. The strategy considers ways to improve the economy, efficiency and effectiveness of the service by assessing the optimum skills and experience of the workforce to deliver the desired outcomes for children. The Strategy also considers how the Council can attract, develop and retain staff through its remuneration and training offer. The Council has fully considered comparative data from other authorities whilst designing its remuneration package. Costs of the proposals have been considered and built into directorate budgets.

Kent's 'compelling offer', aims to bring trained and experienced social workers into Kent, retain existing experienced staff and recruit more staff from within Kent. As a result of the action taken to date, vacancy rates are reducing. Since May 2011 the Council has appointed 44 experienced social workers and has employed agency staff through Kent Tops Temps, following a renegotiation of contract prices. The Council's performance reports to March 2012 show that the ten per cent vacancy rate target recommended by Ofsted had been achieved at March 2012. Progress has also been made in increasing the percentage of posts filled by permanent qualified social workers, up from 80 per cent in December 2010 to 87 per cent in March 2012. The structure of the social workers teams and number of supervisors is also being reviewed within the service restructure proposals. A supervision audit has been carried out and has identified areas where further improvements in supervision are required. Actions are being taken by the Council to address the concerns it highlighted. This includes a new training programme, new data systems, re-issue of the supervision policy and development of supervision practice guidance.

Changes in management of the adoption service

The Council has recently invested additional funds in adoption services, with a view to improving the performance of the service. It is too soon to tell whether this investment will be matched by improved performance. The Council awarded a two year contract in April 2012 for management of the adoption service to oversee planned service improvements, including whether and how adoptions in Kent might increase in number and be brought to completion more speedily. The adoption contract cost the Council £1.1 million. The contract is in addition to the directorate's budgets.

The Council contend that if it is able to increase the number of successful adoptions, not only would it be transforming the lives of vulnerable and disadvantaged children, it could simultaneously achieve significant savings in its service costs. The Council is therefore aiming to improve the economy, efficiency and effectiveness of adoption services by:

- increasing the supply of adoptive parents;
- speeding up the recruitment process; and
- improving care planning and early decision making for children in the care system.

This work is at an early stage, so there is still much to do to improve VFM in adoption services. At March 2012 the percentage of children leaving care who are adopted is behind the Council's 11 per cent target. The total number of adoptions in 2011/12 was 70 (8.2 per cent, compared with the 8 percent achieved in 2010/11). Achievement of the Council's 11 per cent target adoption target is therefore challenging and will require continued focus and close monitoring.

Risk	Audit response
New corporate governance arrangements The Council has adopted a new corporate governance structure during 2011/12 including the introduction of a hybrid model of governance, and a realignment of the officer structure.	A joint review with Internal Audit was completed of the new governance arrangements, focusing on the new Corporate Board. Minutes of the joint corporate board meetings were reviewed and interviews were held with: ■ the Leader; ■ Portfolio Holders for: – Adult Social Care and Public Health; – Business Strategy, Performance and Health Reform; – Finance and Business Support; and – Specialist Children's Services. ■ Members of corporate management team. Internal Audit will report its findings in September. I have seen their draft report and agreed the findings and support the recommendations made.

Summary of findings

The Council implemented new governance arrangements introducing a new cabinet committee structure and revised senior management arrangements, deleting the post of the Managing Director. The structure was approved at the December 2011 County Council meeting with the final committee structure and amendments to the constitution being agreed in March 2012.The stated aim of the changes is to strengthen policy making increasing the input of non executive members and improving strategic decision making and the leadership of the organisation by greater collaborative working between Cabinet and CMT, reducing perceived tensions between the agendas and decisions of Cabinet and CMT.

The Council established a new ‘Corporate Board’ comprising Cabinet and Corporate Management Team. The Board’s function is to achieve the cultural change required to improve collegiate working between members and management. The Corporate Board meetings commenced on 6 March 2012 and it meets every three weeks.

All interviewees agreed that there are positive signs of improved working and a cultural shift, whilst recognising that establishing the required culture will take time. Officers confirmed that they feel able to engage in discussions, speak openly and challenge other officers even if it is not their specialist area. They comment that this is a positive change from how they felt previously, as historically officers were not expected to challenge reports outside of their directorate. Members interviewed felt that the new arrangements are an improvement on the past and whilst acknowledging that they are still relatively new stated there was more to do to develop the ‘strategic overview’ role that all members of the corporate board need to contribute too. The Leader chairs the meetings and is conscious of the need to bring everyone into discussions where it is required.

The governance arrangements of the Board meetings appear appropriate, with some acknowledged areas for improvement. Interviewees confirmed that papers are available on the Thursday before the Monday meeting which is considered acceptable by them. Further consideration needs to be given to agenda management as those interviewed expressed concerns over the length of agendas. Members interviewed acknowledged that on occasions, the setting of the meeting or the length of the agenda has hindered robust debate of issues, although the facility exists to hold additional meetings where required. A support officer to the Board has been recruited in July 2012. Internal Audit reviewed the agendas of meetings to date and concluded that the issues being raised with the Board were of an appropriate level. This view was echoed by members and officers as on the whole they felt the issues being debated by them were relevant to the strategic direction of the Council.

The Board’s Terms of Reference (ToR) establishes the important elements for an effective set up, including the membership, meetings, and agenda management. The Council has set up a number of Boards which are chaired by the Cabinet Member for the related portfolio. These include: Budget Programme Board; Commercial Services; Performance Evaluation Board; Procurement and Commissioning Board; Property Board; and Strategic Communications Board. The purpose of the Boards is to advise the Cabinet Member on key issues and actions being taken by officers to enable the member to effectively carry out their role. It is the responsibility of the Chair of the Boards to report issues being discussed and progress being made to the Corporate Board. As some of these Boards are quite new, these arrangements are not fully in place yet.

Responsibilities of the former Managing Director have been reassigned to other officers. A review was undertaken by the Council to ensure all responsibilities were mapped across. The officers interviewed were happy with the process undertaken and felt that the reallocation has led to a sensible and reasonable workload. They were clear on the purpose of their new role and how this fits into the overall governance arrangements of the Council, including the links to the Bold Steps for Kent. Although the new structure is still in its infancy, no significant weaknesses or issues have arisen to date.

The Head of Paid Service has line management responsibilities for the Corporate Director of Finance and Procurement and Corporate Director of HR and he is also responsible for the 'pay and rations' of all corporate directors. All other line management responsibilities have been passed to the lead Cabinet Member for the portfolio. In some cases, corporate directors reports to two Members. Members interviewed recognise there is a greater need for joined up working by members to ensure that officers receive the same performance message and are not overwhelmed by conflicting interests and work commitments. Cabinet members are responsible for setting objectives and undertaking performance appraisals for corporate directors. Interviews with members and officers confirmed that these meetings were taking place. However, improvements need to be made in the formal minute taking and documentation of appraisals as this is currently a relatively informal process.

Recommendation
R7 The Corporate Board should consider self assessing the effectiveness of its developing culture in the next 6 months.

Risk	Audit response
Performance management The Council published 'Bold Steps for Kent' in December 2010. This is its medium term plan for the four years to 2014/15. In July 2011, the Council published a delivery framework for 'Bold Steps', setting out key priorities, milestones and key performance measures. Work is in progress to develop a rounded, robust performance monitoring suite to track progress against the key priorities.	Internal Audit's 2012/13 plan proposes a review of performance management. Subject to the scope and the timing of its work, I will seek to rely on this for my VFM conclusion, supplemented as appropriate by my own review of the developing performance management arrangements.

Summary of findings

Internal Audit (IA) undertook a review of the progress made to date on the implementation and development of the performance framework and the quality of the information reported. Internal Audit's overall conclusion is that the framework is operating effectively although much work is needed to address the quality of data reported from the systems. IA has planned a significant work programme in the 2012/13 Audit Plan to review the data quality arrangements as the Council has identified this as a corporate risk. I have placed reliance on the work of IA and have supported this with a review of performance reporting to committee and interviews with key officers and members. I support the recommendations made by IA in their report.

The performance management framework has continued to be developed during the year. The 'Bold Steps for Kent' sets out the vision and key priorities for Cabinet and the County Council. There are 16 priorities in the 'Delivering Bold Steps' document, supported by projects/programmes the Council is currently or planning to undertake in the future, and quarterly and annually collected performance indicators. The Council has developed a corporate suite of 30 key performance indicators (KPIs) to measure progress against priorities in its vision. Where possible, the KPIs are reported to Cabinet via quarterly performance reports (QPR). The Leader has expressed the need to increase the level of qualitative performance indicators so the Council has a greater understanding of the customer perspective. This is being led through the customer services strategy with an aim of including qualitative KPIs in the 2012/13 performance reporting. The Performance and Evaluation Board (PEB) a mixed member/officer group, chaired by the Cabinet Member for Business Strategy, Performance and Health Reform provides a detailed challenge to the QPR allowing Cabinet to take an overview. The PEB challenges the action plans for performance improvement to ensure the strategic priorities of the Council are met. It holds KPI owners to account by calling in officers who are responsible for any red rated KPIs. If the Board does not think sufficient action is being taken it can escalate the area of concern to the Corporate Board. Directors from all directorates are representatives on the PEB to ensure it has a Council-wide view of performance issues. The Council plans to complete the cycle of reporting progress against its priorities through a public annual report.

The Council has recently created a programme office which will collate the supporting information from the various projects and programmes in existence that feed into the performance framework. Currently, this information is not reported in the QPR as there is insufficient data available to make direct links. The use of the programme office to report the work of linked projects and programmes aims to improve data available for decision making.

Performance monitoring at directorate level is also being strengthened. Each directorate has performance indicators linked to their business plan which is the method used for monitoring performance at divisional and directorate management teams. The Council has recently enhanced the reporting at this level by creating directorate dashboards. This is most advanced in the children's services directorate and the intention is for this style of dashboard to be rolled out across the Council as the detail in some is still being worked on to make it a useful management tool. This is recognised as an area of transition. The PEB also reviews and challenges performance reported in the directorate dashboards.

Risk	Audit response
Risk management	
The Council has refreshed its approach to risk management. Managerially, the responsibility for risk management has been assigned to a newly created post of Head of Risk. This area is being covered on an interim basis.	Internal Audit's 2012/13 plan proposes a review of risk management. Subject to the timing of its work, I will seek to rely on this for my VFM conclusion, supplemented as appropriate by my own review of the Council's revised risk management arrangements.

Summary of findings

Risk management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

The Council's formal risk management processes suffered during the significant organisational change undertaken during the year. Internal Audit (IA) undertook a review of risk management arrangements in place in 2011/12 and gave a limited assurance over the adequacy and effectiveness of the Council's formal risk management arrangements. A corporate risk register is in place and some actions identified have been implemented. The Governance & Audit Committee did not review the Corporate Risk Register during 2011/12; it was presented for the first time in April 2012. The Committee has commented on this deficiency and secured the commitment for more regular reporting in the future to allow it to meet its own terms of reference.

During the year, risk management processes were not embedded operationally across the Council. Directorate risk registers, core documents supporting the Corporate Risk Register, were not fully in place following the restructure. Internal Audit found that only two directorates could provide a risk register and these varied in quality and detail without clear links to objectives. In addition, some divisional risk registers, which sit below directorate registers, were unavailable when requested during their audit.

The risk management arrangements have been refreshed during the latter part of the 2011/12 financial year in preparation for the new financial year. The Council has adopted the eight principles of risk management from the Office of Governments Commerce's recognised best practice guidance. These underpin the risk management framework and policy that was endorsed by the Performance Assurance Team (PAT) in September 2011 and approved by Governance and Audit Committee (G&AC) in November 2011. Its risk management policy requires updating to reflect the new governance arrangements. The Council is planning to undertake a review in July 2012 and seek approval by G&AC later in the year. An Interim Risk Manager was appointed and he has worked with directorate and divisional management teams to create risk registers for 2012/13. These support the final version of the 2012/13 Corporate Risk Register approved in March 2012. The Council identified the need to improve the collation and monitoring of risks and has purchased risk management software to enable the registers to become 'live' data. This is currently in test phase with administrator training planned for July 2012. The Risk Manager needs to ensure that this system is used effectively by risk owners when it is rolled out later this year.

Cabinet members and Corporate Directors have undergone risk management training during the year. Risk management training has not been rolled out for all managers responsible for monitoring risks in their directorates. Informal training was provided by the Interim Risk Manager as part of the 2012/13 business planning process but the Council has recognised that further training is required. Risk management training has also been incorporated into the 2012/13 member training programme to ensure that the significant number of members not in the Cabinet have sufficient knowledge of risk management.

Despite the absence of formal, fully embedded risk management arrangements, Cabinet and the Corporate Management Team have continued to manage risks. A summary of the status of key corporate risks was reported quarterly during the year. Key outcomes of practical risk management include the delivery of; challenging financial savings and the annual budget; significant organisational restructuring and service improvements to its children's services. Cabinet and CMT have reviewed the annual governance statement which describes and evaluates the overall governance arrangements in place and reflected the weaknesses in risk management in the year.

Recommendation
R8 The Council needs to ensure that the risk management software is successfully implemented and rolled out to risk owners with clear guidance on using the system as a 'live' data information hub.

Risk	Audit response
Data quality and workforce In 2010/11 the Council's arrangements for safeguarding children was inspected. This raised concerns about operational practice (which is outside 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	In the event that Ofsted reinspect the Council before I issue my VFM conclusion, I will consider their latest findings that are relevant to my responsibilities.

Summary of findings

Ofsted did not reinspect the Council during the 2011/12 financial year, or in the months up to the date of the VFM conclusion. Therefore, I am unable to remove the ‘except for’ conclusion in respect of the 2010/11 Ofsted report on safeguarding children.

Report by exception

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 in 2010/11. 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'. I am unable to remove the 'report by exception' in 2011/12 as Ofsted have not formally inspected the service since the original findings. Improvements made to date have been reported to the relevant committee by officers. Appendix 1 shows how the 'report by exception' sits within the context of the complete value for money conclusion.

Fees

I reported my planned audit fee in the 2011/12 Audit Plans.

I will complete the audits within the planned fee.

Table 6: **Kent County Council Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	346,500	346,500
Claims and returns	20,865	20,865
Non-audit work	2,500	2,500
Total	**369,865**	**369,865**

The Audit Commission has paid a rebate of £27,720 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to **£342,145**.

Table 7: **Kent Pension Fund Fees**

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	49,170	49,170
Total	**49,170**	**49,170**

The Audit Commission has paid a rebate of £3,933 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to **£45,237**.

Appendix 1 – Draft independent auditor’s report

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

Opinion on the Council financial statements

I have audited the financial statements of Kent County Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Kent County Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects.

Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

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

Respective responsibilities of the Council and the auditor

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

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Report by exception

The Audit Commission's guidance also requires me to report by exception on any other significant additional matters that come to my attention and which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources. I consider the findings of the Ofsted inspection in October 2010 to be a significant matter. The inspection concluded that the overall effectiveness of safeguarding children and young people services and services for looked after children were inadequate, identifying significant 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.

The Council is working to an agreed improvement plan but as Ofsted have not carried out a re-inspection during 2011/12 I am unable to remove to except for qualification.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

I am also required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2012. As the Council has not yet prepared the Annual Report I have not yet been able to read the other information to be published with those financial statements and I have not issued my report on those financial statements. Until I have done so, I am unable to certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells

District Auditor

Audit Commission
1st floor Millbank Tower
Millbank
London
SW1P 4HQ

26 July 2012

Appendix 2 – Uncorrected errors

I identified the following error during the audit which management have not addressed in the revised financial statements.

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Provisions – note 21	The Council has included a provision for VAT potentially payable to the French government in respect of income related to a property owned by them in France. Due to the Council being unsure whether it needs to register for VAT this does not meet the recognition criteria for a provision. The potential liability should be disclosed as a contingent liability:				
	Net Cost of Services		383		
	Provision			383	

Appendix 3 – Corrected errors

I identified the following errors during the audit which management have addressed in the revised financial statements.

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	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 CIES by £3.7m. There is no effect on the net expenditure at 31 March 2012. 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. This was identified as an error in 2010/11 and the Council identified the incorrect treatment in 2011/12 as part of the management review of the draft financial statements.	3,700	3,700		

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
Other operating expenditure – note 9	The loss on disposal of non-current assets is understated by £6,672k as the Council used incorrect ‘carrying values’ of some disposals to calculate the gain or loss:				
	Gains/losses on the disposal of non-current assets	6,672			
	Non-current assets		6,672		
	Capital Adjustment Account			6,672	
	General Fund				6,672
Property, plant and equipment – note 12	Seven foundation status schools financed via PFI were included on the Balance Sheet. As the council does not have the control over the services provided or the title deed to the assets these should be removed from the Balance Sheet.			132,900	132,900
	One foundation school achieved trust status in the year. This was not removed from the balance sheet.			29,000	29,000
Investment property – note 14	The Council correctly revalued investment assets where their value had increased in the year. But the increase in value was accounted for incorrectly through the revaluation reserve. Correcting this, changes a number of entries in primary statements including the CIES and notes as follows:				
	Adjustments primarily involving the Capital Adjustment Account (note 7)	4,119			
	Income and Expenditure in relation to investment properties and changes in their fair value (note 10)		4,119		
	Revaluation reserve			4,119	

Kent County Council		Statement of comprehensive income and expenditure		Balance sheet	
	Capital Adjustment Account				4,119
Cash and cash equivalents - note 16	The cash held on behalf of the Pension Fund was excluded from the Council’s financial statements as they believed the Pension Fund would disclose as cash. A transfer was not made between the bank accounts or General Ledger codes before year end so this could not be corrected. Therefore, the cash had to be shown in the Council’s financial statements as:				
	Cash			3,313	
	Creditors				3,313
	A recommendation has been made in the main report to improve procedures in 2011/12.				
Operating leases – note 28	Contingent rents have been included in two different disclosure lines in the operating lease note. The Council has removed £412k from the ‘minimum lease payments’ disclosure.				
Dedicated schools grant – note 34	The Code requires the disclosure of ‘in year movement’ in the note:				
	Central expenditure	13,538			
	ISB schools		13,538		
Investments in Icelandic banks – note 44	The Council correctly calculated the impairment charge for the Icelandic bank deposits in 2011/12. However, the accounting entries were incorrectly coded in the General Ledger:				

Kent County Council		Statement of comprehensive income and expenditure	Balance sheet	
	Short term investments		2,275	
	Financial Instrument Investment Account			2,275

Kent Pension Fund		Fund Account		Net Assets Statement	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Net Assets Statement and Investment notes 13 and 14	Two changes have been made to the prior year comparators:				
	■ The cash internally invested by the Pension Fund was previously treated as a cash balance. In 2011/12 officers decided to present the cash as part of the cash deposit investments (cash equivalents) and not as cash held by the pension fund. This required a restatement of the prior period figures for cash for these deposits:				
	– 2010/11 investments cash deposits			12,061	
	– 2010/11 current assets cash				12,061
	■ Investment management fees were shown in 10/11 as the net position. Officers feel it is more transparent to show the gross fees:				
	– 2010/11 investment management fees	3,562			
	– 2010/11 income from investments		3,562		

Appendix 4 – Draft letter of management representation

Kent County Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other corporate directors of Kent County Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows.

- In previous years we have received conflicting advice regarding French VAT and made the decision to set up a provision. The treatment will be reviewed next year.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

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

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Authority has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

For the early retirement provision accounting estimate, I confirm:

- the appropriateness of the measurement method, including related assumptions and models, and the consistency in application of the method;
- the assumptions appropriately reflect management's intent and ability to carry out specific courses of action on behalf of the Authority, where relevant to the accounting estimates and disclosures;
- the disclosures relating to the accounting estimate are complete and appropriate under the Code; and
- that no subsequent event requires the Authority to adjust the accounting estimate and related disclosures included in the financial statements.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Comparative financial statements

Two restatements were made to correct material misstatements in the prior period financial statements of capital grant income and the accounting treatment of PFI foundation schools. These affect the comparative information of the Comprehensive Income and Expenditure Statement and Balance Sheet respectively. Written representations previously made in respect of the prior period remain appropriate.

Signed on behalf of Kent County Council

I confirm that this letter has been discussed and agreed by the Governance and Audit Committee on 26 July 2012.

Signed

Name Andy Wood

Position Corporate Director of Finance and Procurement

Date 26 July 2012

Appendix 5 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 6 – Action plan

Recommendations	
Recommendation 1	
The Council should ensure that lifecycle costs are based on the actual costs incurred and the actual timing of those costs.	
Responsibility	Capital Finance Manager
Priority	Low
Date	31 March 2013
Comments	CFM to liaise with PFI and property teams to ensure information can be obtained.
Recommendation 2	
Officers should reconcile the accounts receivable system to the GL on a monthly basis using the improved process.	
Responsibility	Chief Accountant
Priority	Medium
Date	31 August 2012
Comments	We have a new improved process in place which will be rolled out by the end of August.
Recommendation 3	
The pension fund bank reconciliation process should ensure that cash held on behalf of the fund by the Council should be transferred back to it on a regular basis, with the cash held as at 31 March being shown as cash in transit in the reconciliations and financial statements.	
Responsibility	Treasury and Investments Manager
Priority	High

Date	31 March 2013
Comments	Arrangements to be made for the cash balance at 31 March 2012 to be transferred from KCC to the Pension Fund. The cash reconciliation to be completed monthly and the cash balance at 31 March 2013 to be transferred and accounted for as recommended

Recommendation 4

Officers should ensure that the requirements of IAS32 (Financial Instruments: Presentation) are met when producing the financial instruments notes for the Council and Pension Fund.

Responsibility	Chief Accountant (Council) and Principal Accountant – Treasury / Senior Accountant - Investments (Pension Fund)
Priority	Low
Date	31 March 2013
Comments	Agreed

Recommendation 5

Officers should continue improvements made in the year in taking prompt corrective action to ensure payments from admitted and scheduled bodies do not breach 19 days.

Responsibility	Treasury and Investments Manager / Principal Accountant - Pension Fund
Priority	Low
Date	31 March 2013
Comments	The receipts of Contributions continue to be monitored monthly and corrective action taken accordingly.

Recommendation 6

Following completion of the service restructure, regularly review staff resources based on service demand changes and resource skills and experience.

Responsibility	Director of Specialist Children's Services
Priority	Medium
Date	31 March 2013

Comments	The Council plans to further review service resource requirements in light of the findings of peer review and the Ofsted follow up. Any future resource changes will be shared with the Improvement Board for comment.
Recommendation 7	
The Corporate Board should consider self assessing the effectiveness of its developing culture in the next 6 months.	
Responsibility	Corporate Board
Priority	Medium
Date	31 December 2012
Comments	Agreed
Recommendation 8	
The Council needs to ensure that the risk management software is successfully implemented and rolled out to risk owners with clear guidance on using the system as a 'live' data information hub.	
Responsibility	Business Integration Manager
Priority	High
Date	31 December 2012
Comments	Agreed

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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

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

www.audit-commission.gov.uk

July 2012