AGENDA

AUDIT COMMITTEE MEETING

MAIDSTONE
Borough Council

Date: Monday 15 June 2009
Time: 6.30 p.m
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Horne (Chairman), Butler, Daley, Nelson-Gracie and Warner

Page No.

1. Apologies for Absence
2. Notification of Substitute Members
3. Notification of Visiting Members
4. Disclosures by Members and Officers
5. Disclosures of Lobbying
6. To consider whether any items should be taken in private because of the possible disclosure of exempt information
7. Minutes of the meeting held on 1 June 2009 - to follow

Continued Over/:

Issued on 3 June 2009

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David Petford

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

15 JUNE 2009

REPORT OF THE HEAD OF FINANCE

1. STATEMENT OF ACCOUNTS 2008/09

1.1 Issue for Decision

1.1.1 This report presents the Statement of Accounts for 2008/09 which fulfils the requirements of the Accounts and Audit Regulations 2003.

1.2 Recommendation of the Head of Finance

1.2.1 That the Audit Committee agree to recommend to Council the Statement of Accounts as set out in **APPENDIX A** for the financial year ended 31 March 2009.

1.3 Reasons for Recommendation

1.3.1 The Accounts and Audit Regulations are issued by Central Government under Section 23 of the Local Government Finance Act 1982. They provide not only the rules for the preparation and publishing of Final Accounts but also the duties of the Responsible Financial Officer (RFO) of the Authority.

1.3.2 There are no significant changes to report on the format of the statements in 2008/09 when compared to 2007/08. The Council is required to comply with international financial reporting standards from 2009/10 and work has commenced on the restatement of 2008/09 accounts. An analysis of the requirements and the Council's plans for compliance are reported elsewhere on this agenda.

1.3.3 The Statement of Accounts includes an Income and Expenditure account which shows the revenue position in 2008/09. The Balance Sheet incorporates the impact of capital spend in 2008/09, the position of revenue reserves and usable Capital Receipts.

1.3.4 The major messages from the Statement of Accounts are as follows:-

(a) Overall fixed assets have increased in value from £60.1m to £63.8m as a result of revaluation and additional expenditure. The analysis of assets on the balance sheet shows the movement of the Council's previous office accommodation from operational land and buildings to surplus assets for resale.

(b) Long term investments have reduced from £9.3m to £5m following the re-categorisation of £6m of investments to short term, due to maturity dates within the next twelve months, and the completion of a new long term investment of £2m.

(c) Current investments have reduced from £16.9m to £13.9m. This is as a result of planned use of capital receipts to fund capital expenditure. Set off against this is the re-categorisation of the long term investments detailed above. It should be noted that the total investment portfolio at the end of 2008/09 is £18.9m compared to £26.2m at the end of 2007/08.

(d) Current liabilities have remained consistent however there is an increase in unapplied government grant due to the receipt of growth point grant funding and a reduction in sundry creditors.

(e) Based on the information provided by the Actuary for 31st March 2009, the pension reserve has increased in deficit from £28m to £38m. The major impact on the deficit comes from actuarial losses of £8m over the year. As detailed in a previous report to the Audit Committee the actuarial loss represents the Actuaries short term view on the value of the pension funds assets and differs from the three yearly, long term actuarial evaluation. In the preceding two years the reserve has benefited from actuarial gains.

(f) The usable capital receipts reserve has reduced from £13.9m to £8.3m as a result of the utilisation of capital receipts to finance the capital programme.

(g) The general fund balance has reduced from £8.3m to £7.3m. This is in line with previous decisions by Cabinet and Council. The balance on the collection fund is now only £0.1m compared to £0.4m. The value of £0.02m stated on the balance sheet represents only the proportion of the collection fund balance that is attributable to the Council. The remaining balance is reported as a creditor to the precepting authorities elsewhere on the balance sheet.

1.3.5 The Statement of Accounts includes the Annual Governance Statement which has been considered and approved in a previous report to Cabinet and the Audit Committee. The Audit Committee and Council are asked to agree the Statement of Accounts on the basis of the assurances contained in the Annual Governance Statement and the additional assurance resulting from the agreement at this Audit Committee meeting that the Internal Audit function is effective.

1.3.6 The Audit Committee will note that the Statement of Accounts includes details of Related Party Transactions which, in part, are based upon returns from Councillors. The details included are based upon a complete set of returns and there are no follow up actions required for 2008/09.

1.3.7 The audit of the accounts is to commence on 13 July 2009 and the External Auditor expects to formally issue his report to Members in good time to meet the Authority's statutory timetable.

1.4 Alternative Actions and why not Recommended

1.4.1 None.

1.5. Impact on Corporate Objectives

1.5.1 None.

1.6 Risk Management

1.6.1 The early closure of the Accounts and the speedy reporting of the Statement of Accounts for Council agreement show a high level of financial management by the Council. This is part of the overall risk strategy for dealing with budgetary control and use of resources.

1.7 Other Implications

1.7.1	Financial	X
	Staffing	-
	Legal	-
	Social Inclusion	-
	Considerations for Disabled Persons	-
	Environmental/Sustainable Development	-
	Community Safety	-
	Human Rights Act	-
	Procurement	-

1.7.2 The Statement of Accounts is a factual statement of the financial affairs of the Authority for 2008/09.

Background Documents

(a) Accountancy reports on financial transactions for 2008/09
(b) Accounts and Audit Regulations 2003

<u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u>

Is this a Key Decision? Yes [ ] No [X]

If yes, when did it appear in the Forward Plan? ………………………………….

Is this an Urgent Key Decision? Yes [ ] No [X]

<u>Reason for Urgency</u>

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

CONTENTS

EXPLANATORY FOREWORD

Introduction

The Council's accounts for the year 2008/09 are set out on the following pages. They consist of:

1. The Income & Expenditure Account – this reports the net cost for the year for all Council functions, and demonstrates how that cost has been financed from general government grants and from local taxpayers.

2. The Statement of Movement on General Fund Balance – this is a reconciliation statement that summarises the differences between the Income & Expenditure Account and the General Fund balance. These are sums that are required by statute and non-statutory proper practices to be charged or credited to the General Fund, in order to ensure that the level of Council Tax is calculated on the correct basis.

3. The Statement of Total Recognised Gains and Losses – this brings together the surplus or deficit on the Income & Expenditure Account along with any gains or losses not recognised within that account to summarise the movement in the net worth of the Council during the financial year.

4. The Balance Sheet – this summarises the Council's financial position at the end of the financial year. It shows its balances and reserves and its long-term indebtedness, and the fixed assets and net current assets employed in its operations, together with summarised information on the fixed assets held.

5. The Cash Flow Statement - which summarises the total movement of the Council's funds and gives a brief subjective analysis of the Council's expenditure.

6. Notes to the Core Statements – these provide more detailed analysis and information on significant balances and movements within the statements listed above.

7. The Collection Fund - shows the transactions of the Authority in relation to Non Domestic Rates, Council Tax and residual Community Charge (or Poll Tax). It illustrates the way in which these have been distributed to Preceptors and the General Fund.

The Code of Practice on Local Authority Accounting for 2008/09 did not introduce any significant changes to the way the Council's Accounts are to be presented. There were only a number of minor amendments relating mainly to presentational issues.

These accounts are preceded by the Annual Governance Statement, the Statement of Responsibilities and the Statement of Accounting Policies.

The Council's financial year runs from 1st April to 31st March. A summary of the Balance Sheet as at 31st March 2009 is shown below:

2007/08 £000		2008/09 £000
60,256	Fixed Assets owned by the Council	64,258
26,253	Investments	18,930
12,468	Money owed to the Council	13,248
(47,259)	Money owed by the Council	(57,346)
51,718		**39,090**
	Financed by:	
22,298	Distributable Reserves	15,479
29,419	Non-Distributable Reserves	23,611
51,717		**39,090**
	Distributable Reserves made up of:	
13,970	Capital Receipts	8,276
8,328	Revenue Balances	7,203
22,298		**15,479**

The major movements in the Balance Sheet can be summarised as follows:

- Within Non-Distributable Reserves, a net increase in the Pensions Liability of £9.020m
- An decrease in Sundry Creditors of £2.859m
- A net increase in the value of Fixed Assets held of £3.682m
- A reduction in Investments held of £7.323m
- A reduction in Capital Receipts of £5.694m

Income & Expenditure Account

Expenditure - The Income & Expenditure Account summarises the cost of all General Fund services provided by the Council. The total budget requirement was £21.633m, which was funded as follows:

	£000
Revenue Support Grant from Central Govt.	1,151
Non-Domestic Rate Income	8,266
Council Tax Prior Year Adjustment	63
Council Tax Income	12,153
Total	**21,633**

The initial net spend of £22.638m was calculated as follows:

	£000
Total Budget Requirement	21,633
Planned Contributions from Balances	1,041
Asset Replacement	(50)
Invest to Save	(55)
Local Development Framework Earmarked Reserves	69
Net Spend on General Fund Services	**22,638**

The actual spend for revenue purposes was £22.758m, and there was a net reduction to balances of £1.125m. The General Fund Balances at 31st March 2009 were £7.203m. A summary of the revenue spend for 2008/09 is shown below. (The Corporate Services line includes all the appropriation entries shown below Net Cost of Services in the Income & Expenditure Account):

Portfolio	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
Leader of the Council	3,395	1,676	751	(925)
Community Services	1,553	1,616	1,593	(23)
Corporate Services	(4,978)	(1,889)	(1,440)	449
Environment	8,654	8,392	8,048	(344)
Leisure & Culture	4,940	5,760	5,572	(188)
Regeneration	9,347	8,413	8,234	(179)
Assumed Slippage	(273)	(273)		273
Total Service Spending	**22,638**	**23,695**	**22,758**	**(937)**

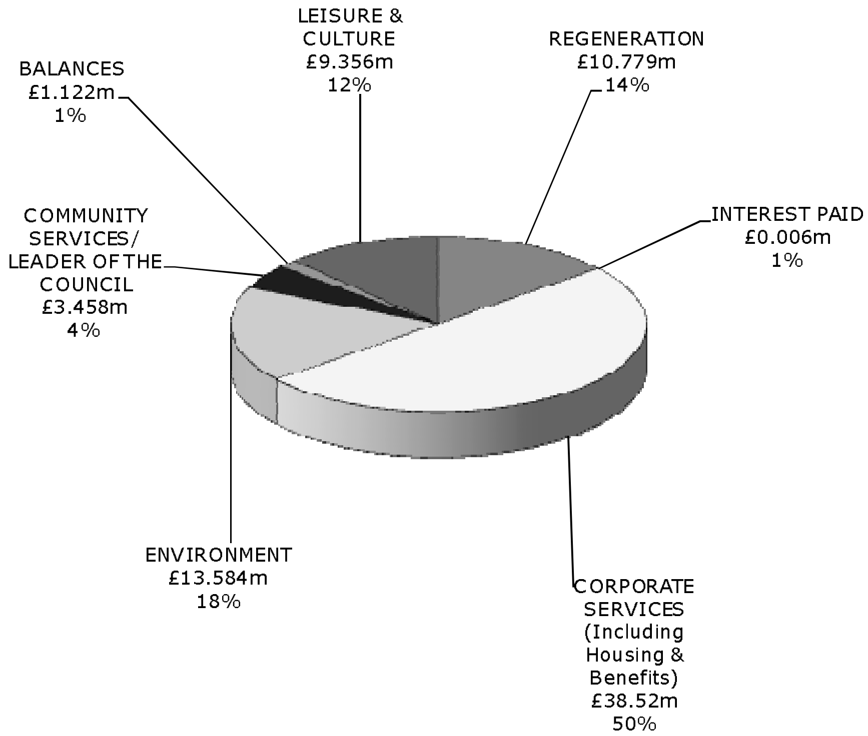
After allowing for a planned underspend of £0.273m, the underspend against the revised estimate was £0.937m, however this included carry forwards of £0.969m, making a net contribution from uncommitted balances of £0.032m.

Income - The pie charts shown below illustrate in broad terms where the Council's money comes from and the services that it provides.

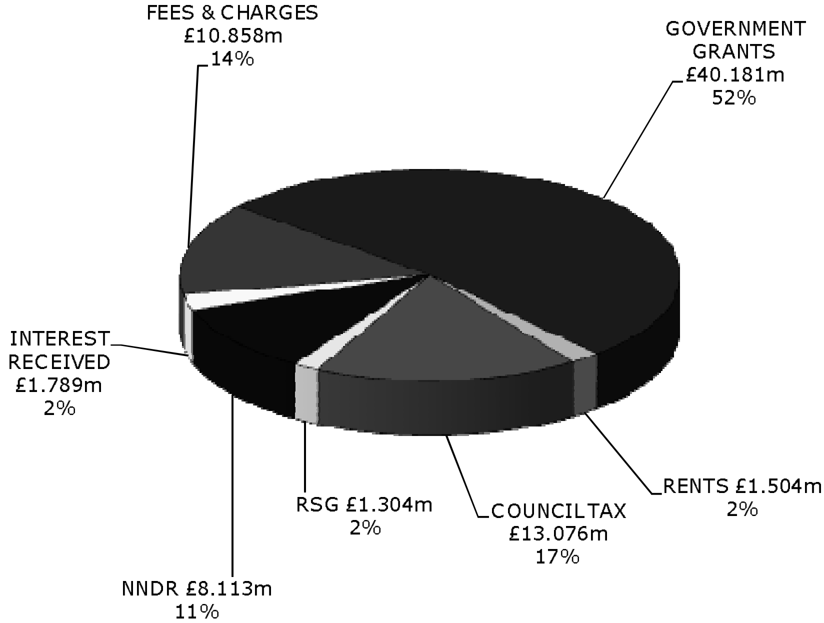
18% of the Council's income came from the services it provided through rents, fees and charges and interest. The largest single source of income was Specific Government Grants, such as Rent Allowances, Council Tax Benefit and Housing Subsidy, which provide 52% of the total.

Fees and charges were an area that was particularly hit by the economic downturn, with the main impact being in the areas of planning fees, land charges fees, pay & display car park charges and park & ride charges, all of which were significantly down against their anticipated targets.

SPENDING - WHERE IT WENT



SPENDING - WHERE IT CAME FROM



Capital Expenditure & Income

The Council spent £11.432m on Capital Projects compared to an original estimate of £12.870m. As a result of the quarterly monitoring of the capital programme there were some changes to the projected spend in 2008/09, particularly a major review relating to housing, and the revised estimate was set at £20.493m. Significant elements of the capital spending were Office Accommodation (£3.568m), Renovation Grants (£1.854m), and Support for Social Housing (£2.145m).

A summary of capital expenditure is shown below:

Portfolio	Original Estimate £000	Revised Estimate £000	Actual £000	Variance to Revised £000
Leader of the Council	480	2,074	3,568	1,494
Community Services	181	383	166	(217)
Corporate Services	747	1,186	1,410	224
Environment	410	871	118	(753)
Leisure & Culture	2,150	3,187	1,342	(1,845)
Regeneration	12,792	12,792	4,829	(7,963)
Total Service Spending	**16,760**	**20,493**	**11,433**	**(9,060)**

The Original Estimate includes unspent resources brought forward from 2007/08 of £7.622m.

The main areas of underspend were as follows:

- New Growth Point - £1.609m
- South Maidstone Project - £3.632m
- Support for Social Housing - £1.395m

The overspend on Leader of the Council relates to the new Council offices, but this is being funded by Kent County Council and the Mall Corporation. It also includes a notional sum for the disposal of the staff car park at London House, which was included as part of the agreement to terminate the lease on the Council's old offices. This is funded by a notional capital receipt of the same value.

Capital expenditure was funded as follows:

	£000
Revenue Support	883
Disposal of Assets – Current & Previous Years	7,813
Fremlins Development Receipts	670
Other Grants & Contributions	2,067
Total	**11,433**

The disposal of assets during the year realised capital receipts of £1.21m, and there were a further receipts from the Maidstone Housing Trust in respect of the VAT Shelter Scheme agreement (£0.560m) and the Council's on-going share of Right to Buy receipts (£0.460m). £8.276m of useable capital receipts has been carried forward for future use.

Borrowing & Investments

The Council has adopted the requirements of the CIPFA Prudential Code for Capital Finance. This has given individual authorities responsibility for deciding their own level of affordable borrowing, based on the guidelines laid out in the Code. However, there was no long-term borrowing during 2008/09, as the capital receipts from the sale of the Council's housing stock in 2004, and other receipts, continue to be utilised to fund capital expenditure.

As there is still a large proportion of receipts unutilised this is reflected in the high level of investments, which totalled £18.930m at 31st March 2009, generating investment income of £1.789m.

The banking crisis that began in late 2008 meant that interest returns fell sharply in the second half of the year, although the target set as part of the original estimate was met. The Council had no investments in Icelandic banks and has suffered no losses on any of its investments.

Collection Fund

The Council is a Billing Authority, meaning it is responsible for collecting and paying over Council Tax contributions on behalf of Kent County Council, Kent Police Authority, Kent and Medway Towns Fire Authority, and the Parish Councils within the Borough area. The Council operates a Collection Fund into which it to pays all income collected from the Council Tax and National Non-Domestic Rates. The demands on the Fund for 2008/09 totalling £82.871m were as follows:

Authority	**£000**
Maidstone Borough Council	13,013
Kent County Council	58,620
Kent Police Authority	7,505
Kent & Medway Towns Fire Authority	3,733
Total	**82,871**

The Maidstone Borough Council demand includes £0.859m in respect of Parish Council precept demands.

The Band D level of Council Tax in 2008/09 was £1,401.57, which breaks down as follows:

Authority	**£.p**
Maidstone Borough Council	207.72
Kent County Council	1,001.79
Kent Police Authority	128.25
Kent & Medway Towns Fire Authority	63.81
Total	**1,401.57**

Individual additions to the Council Tax level were made to cover Parish Precepts in parished areas. This level of Council Tax related to a property in Band D and by the application of statutory multipliers the corresponding amount was charged to all properties in Bands A-H.

Pensions

Note 26 to the Balance Sheet refers to the Disclosure of Net Pension Assets and Liabilities. Under the requirements of FRS17 (Financial Reporting Standard) on Retirement Benefits these figures are now reflected in the Council's Balance Sheet and Income & Expenditure Account. The latest actuarial valuation carried out on behalf of the Kent County Council Pension Fund shows a significant movement in the liability related to the pension scheme, from £28.590m in 2007/08 to £37.610m in 2008/09.

Other Comments

No post balance sheet events were identified during the preparation of the Statement.

Future Developments

Future Statement of Recommended Practices for Local Authority Accounting for 2009/10 and beyond are likely to consider possible changes in the following areas:

- Adoption of International Financial Reporting Standards
- Changing from a 'presents fairly' to a 'true and fair' view audit opinion
- The implications of the Accounting Standards Board's 'Statement of Principles for Financial Reporting – Interpretation for Public Benefit Entities'
- The accounting treatment of Government Grants
- The implications of Royal Institute of Chartered Surveyors Valuation Information Paper No.10 'The Depreciated Replacement Cost Approach to Financial Reporting'

The ongoing economic situation will continue to have a significant effect on the financial position of the Council in 2009/10. With continuing uncertainty over new capital receipts, existing receipts will need to be used to fund the capital programme, which in turn will further reduce sums available to investment. Investment income will be a smaller source of income than in previous years due to continuing low interest rates, and there is also likely to continue to be reduced income from fees and charges.

The Council will continue to explore ways of reducing its costs through efficiency savings, shared services and partnership working. There is now a formal arrangement with Ashford, Swale and Tunbridge Wells Borough Councils in the form of the Mid-Kent Improvement Partnership (MKIP).

ANNUAL GOVERNANCE STATEMENT 2008/09

1. SCOPE OF RESPONSIBILITY

1.1 Maidstone Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Maidstone Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In discharging this overall responsibility, Maidstone Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

1.3 Maidstone Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on the website at www.digitalmaidstone.gov.uk or can be obtained from the Council at Maidstone House, King Street, Maidstone, Kent ME15 6JQ. This statement explains how Maidstone Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts an Audit (Amendment) (England) Regulations 2006 in relation to the publication of a Statement on Internal Control.

2 THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Maidstone Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.3 This governance framework has been in place at the Maidstone Borough Council for the year ended 31 March 2009 and up to the date of approval of the annual report and Statement of Accounts.

3 THE GOVERNANCE FRAMEWORK

3.1 The following elements represent the key elements of the corporate governance and internal control environment:

3.2 The Authority's long-term objectives as set out in its '20/20 Vision' with medium and short-term objectives established and set out in the Strategic Plan. Monitoring against the key measures of success is reported quarterly to Cabinet. National and Key Performance Indicators outturns are subject to review by Cabinet, Overview and Scrutiny and, ultimately, by the full Council.

3.3 The Council's Constitution specifies the roles and responsibilities of Members and Officers and lays down financial and contract procedural rules for the efficient and effective discharge of the Council's business. The Constitution includes the roles and responsibility of the Standards and Audit Committees.

3.4 The Council has wide ranging arrangements to consult and work with both partners and the public on issues directly related to Corporate Governance. These parties are consulted on the Council's long term vision, the key priorities of the Council and on resource issues relating to the budget strategy for the delivery of these key priorities. The major partnership is the Local Strategic Partnership (LSP) which delivers the requirement of the Local Area Agreement (LAA2). Partners and the public receive reports on the actual performance of the Council in delivering its priorities and there is also consultation on the effectiveness of these reporting arrangements.

3.5 Policy and decision-making is facilitated though reports from Officers to Cabinet and individual Cabinet Members. Each Cabinet Member has a specific portfolio and will take decisions on matters relevant to the portfolio. The Overview and Scrutiny Committees which broadly mirror the specific Cabinet portfolios have the opportunity to 'call-in' the decisions of Cabinet and recommend changes to decisions or policies.

3.6 The Audit Committee reviews all aspects of Corporate Governance and Risk Management. In particular, it considers regular reports from Internal and External Audit and gives observations and recommendations to Cabinet. It also considers the Annual Statement of Accounts and recommends them to Council.

3.7 Compliance with established policies, procedures, laws and regulations is achieved through:

a) The establishment of a Corporate Governance Officer Working Party chaired by the Chief Executive.

b) Internal Audit – A well established and effective Internal Audit section which works to an approved three year audit plan. Individual audit reports are produced for the relevant managers, with a copy to the Chief Executive and appropriate Director, and six monthly reports to Audit Committee and Cabinet which evaluate the overall internal control environment tested through the audit work. An annual review of audit work and effectiveness, supported where appropriate by a Peer Review or a review by External Audit every three years, is produced for Audit Committee.

c) External Audit – External Audit produce a number of reports which are reported to management and Members. Recommendations and comments are considered and, where necessary, action is taken to address the issues.

d) The Authority has a Treasury Management code of Practice and Strategy and Prudential Indicators which are monitored on a daily basis.

e) Financial Monitoring – Regular reports are produced for Officers authorised to spend, Management Team and Cabinet which facilitates the effective control of the budget.

f) Annual Corporate Planning Cycle – An approved cycle of events has been agreed by Cabinet which facilitates the effective planning of service delivery, including the identification of risks, and budgeting.

g) Quarterly meetings are held with each Head of Service to monitor performance and ensure compliance with a range of corporate policies with summaries of each meeting cycle being reported to Management Team.

h) The Council has an established complaints system backed up by a database linked to the Council's CRM which monitors action taken in relation to individual complaints through an audit trail, facilitates the escalation of complaints to Stage 2 and provides a mechanism for managers to ensure that complaints are dealt with within the prescribed timescales. The system also provides strategic information on complaints which is reported regularly to Management Team and Standards Committee.

i) Risk Management – a Risk Management Strategy has been agreed, corporate strategic risks have been identified and Management Action Plans produced. The Strategic Risk Register is subject to regular review. Risks to service delivery (operational risks) have been accepted as the responsibility of individual authorised officers and incorporated into Service Plans. Heads of Service are responsible for ensuring that their service managers retain an effective operational risk register. Risk management is a standard heading for consideration of all reports to Management Team and Members. A formal risk assessment is required for reports which require decisions on strategic issues or which seek approval for significant projects.

j) Relationships – Open and honest professional relationships exist between the Council and external auditors and inspectors.

k) Service delivery by trained and experienced people – the Council has had an Investors In People award for a number of years, which involves regular appraisals, service and training planning, training evaluation forms, recruitment and selection procedures and initiatives such as Work/Life Balance. Further details of HR-related initiatives are set out in an approved People Strategy. Members receive regular planned training and have received a Members' Training Charter.

l) Performance Management – through Reach the Summit and the Best Value Performance Plan, procedures are in place to regularly review the performance of the authority across all sections and in a timely manner. Regular reports are presented to Management Team and Cabinet and overview and scrutiny committees.

m) Statutory Accounts – the authority has traditionally had a policy of early closure of the accounts which enables presentation of the statutory Statement of Accounts to Members to meet the statutory timetable. This facilitates good financial management and allows the historic accounts to be an effective influence to future financial management.

n) Overview and Scrutiny - The Council has a national reputation for the effectiveness of its overview and scrutiny process and this contributes significantly to the internal control environment.

o) Standards and Audit Committee – these committees monitor and improve on arrangements for Corporate Governance within the Authority.

p) Code of Corporate Governance – The Cabinet has agreed a Local Code of Corporate Governance which is reviewed and reported to Cabinet on an annual basis by the Corporate Governance Officer Working Party.

q) Monitoring Officer and Head of Corporate Law – The Council has appointed a Monitoring Officer and Head of Corporate Law to oversee its compliance with laws and statutory obligations. The Monitoring Officer, who is a Member of Management Team, reports on a regular basis to the Council's Standards Committee.

3.7 Corporate Governance is at the heart of everything the Council does, for staff this is incorporated into the six core values (STRIVE) in the delivery of services and this incorporates key elements such as customer service, delivering of targets, integrity in high standards of Corporate Governance, Value for Money and efficiency and equality.

4 REVIEW OF EFFECTIVENESS

4.1 Maidstone Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of corporate governance and internal control. This is undertaken by the Corporate Governance Officer Working Party. An internal review was undertaken during 2008/09. The review of effectiveness of the system of corporate governance and internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the overall governance environment, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Council is keen to allow itself to be the subject of external scrutiny and challenge and has an effective internal mechanism for regularly reviewing governance controls. The Council embraced the peer review, necessary for the Comprehensive Performance Assessment, the CPA Inspection itself and, more recently, responded positively to the inspection activity associated with the Direction of Travel, Use of Resources and Value for Money judgements. The critical but constructive comments from those processes have been incorporated into improvement plans and have been and continue to be acted upon. Other examples of external challenge are the annual external audit process, regular reviews of Benefit processes by the Audit Commission and other assessments such as those involved in the Chartermark and Beacon status. Benchmarking and other comparisons are also regularly used.

4.3 Six monthly internal audit reports have been presented to Audit Committee and Cabinet, giving the Head of Internal Audit's view on the overall internal control environment, which has subsequently been agreed. The annual internal audit report includes an analysis showing the 'internal control/assurance level' that was given for each audit review at the time of the audit and the reassessed assurance level that was given at the time of the follow up. Improvements in control are therefore demonstrated individually for each review and collectively as an overall "direction of travel" improvement.

4.4 The effectiveness of the system of Internal Audit for 2008/09 was reviewed by a combination of an internal self-assessment, customer satisfaction survey, 3 yearly review by external audit and an earlier comprehensive peer review. The results of the exercise were reported to the Audit Committee in May 2009 and concluded that the Internal Audit section was effective in operating an internal audit service for 2008/09.

4.5 Risk Management is included in service planning, project planning and decision making. Progress in this area has been acknowledged by the external auditors' assessment within previous annual audit letters. Significant action was made to update and refocus the Strategic Risk Register to more closely address the key objectives contained in the Council's Strategic Plan. This occurred in late 2007/08 and subsequently in late 2008/09. Thereafter a six-monthly reporting cycle is in place.

4.6 Management Team and Cabinet receive regular reports on performance within the authority and also take the opportunity to review processes and procedures. This has resulted in resources being redeployed to problem areas.

4.7 The Responsible Financial Officer and the Monitoring Officer periodically review the Constitution, procedures for internal financial control, application of the various Codes of Conduct and, within Management Team, have specific responsibility for the relevant aspects of Corporate Governance.

4.8 The Cabinet has agreed a Local Code of Corporate Governance which is reviewed and reported to Cabinet on an annual basis.

4.9 We have been advised on the implications of the result of the review of the effectiveness of the system of corporate governance by the Corporate Governance Working Group and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5 SIGNIFICANT GOVERNANCE ISSUES

5.1 The Statement of Internal Control for 2007/08, considered in May 2008, contained a small number of issues which were to be addressed during 2008/09 and these are detailed below:-

a) Review Contract Regulations – the review of financial regulations was agreed by Council on 23rd April 2008. The review of contract regulations have been progressed in the context of a county wide review and was agreed by Council on 22nd April 2009;

b) Production of a Section Managers Handbook – the Section Managers handbook has been distributed early in the 2008/09 Municipal Year;

c) Audit reports with a level of assurance less than substantial – 3 areas were outstanding at March 2008 relating to aspects of PCN income, Community Safety and General Fund Properties. These have been monitored and reviewed by the Corporate Governance Working Group during 2008/09 and have all now achieved a substantial level of assurance.

d) Engagement Strategy – best practice identified that the Authority should ensure that arrangements are in place to enable the Authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. It was recognised that practical arrangements are in place to deal with this, but Corporate Governance would benefit from a review to consider the need for an overarching Engagement Strategy. A revised Communication Strategy has been agreed and this includes aspects of consultation and engagement. The specific requirements of engagement are to be further developed in 2009.

5.2 During the review of the effectiveness of Corporate Governance in 2008/09, the following areas have been identified for further work in 2009/10:-

a) Audit reports with a level of assurance lower than substantial – five areas were outstanding at March 2009 relating to aspects of Section 106 Agreements, Refuse Collection Contract Management, Gypsy sites, Climate Change and Freedom of Information. The six monthly follow-up reviews by Internal Audit on these areas are due to be completed in April/May 2009 and the Corporate Governance Working Group will monitor and review these areas during 2009/10.

b) Partnership Working – further work is required during 2009/10 to build on work currently undertaken by the Council with partners on delivering outcomes for the public. Further developments may include involving partners in overall financial planning processes to deliver organisational and shared objectives, a clearer understanding of the total resources at the disposal of significant partnerships, and regular reviews of the financial performance of significant partnerships, clearly linked to outputs.

5.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operations as part of our next annual review.

Date:

……………………………………………………
Chief Executive

Date:

…………………………………………………….
Leader

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, during 2008/09 that officer was the Director of Resources & Partnerships;
- to manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets;
- to approve the statement of accounts.

The Director of Resources & Partnerships Responsibilities

The Director of Resources & Partnerships is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice')

In preparing this Statement, the Director of Resources & Partnerships has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Resources & Partnerships has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of Director of Resources & Partnerships and Leader of the Council

We certify that the statement of accounts set out on the following pages present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March 2009.

Z.Cooke Director of Resources & Partnerships		**Date:**	
Cllr.C.Garland Leader of the Council		**Date:**	

STATEMENT OF ACCOUNTING POLICIES

1. GENERAL

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year end of 31st March 2009. It has been prepared in accordance with CIPFA's Code of Practice on Local Authority Accounting – A Statement of Recommended Practice.

The financial information contained in the accounts has the following qualitative characteristics, as laid out in the Code of Practice on Local Authority Accounting:

- Relevance
- Reliability
- Comparability
- Understandability

In addition, the following accounting concepts have been given precedence in the preparation of the accounts:

- Going concern
- Primary legislative requirements

The accounting convention adopted for the preparation of these accounts is a historical cost basis modified for the revaluation of certain categories of assets.

2. TANGIBLE FIXED ASSETS

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

All expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset value is over £10,000 and yields benefits to the Authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to service revenue accounts.

Tangible fixed assets are valued on the basis required by CIPFA and in accordance with The Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual. Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting, as follows:

Operational Assets	Non-operational Assets
• Land & Buildings	• Investment Properties
• Vehicles, Plant, Furniture & Equipment	• Assets Under Construction
• Infrastructure Assets	• Surplus Assets Held for Disposal
• Community Assets	
• Fixtures & Fittings	

Property and other assets used in day-to-day operations are included in the balance sheet at their open-market value based on their existing use, or at the amount it would cost to replace them.

Assets that are not in use in day-to-day operations, including investment properties, are included in the balance sheet at their open-market value.

Infrastructure assets are included in the balance sheet at the amount they cost when they were bought.

Community Assets were initially valued at a nominal £1 per asset, as per CIPFA guidance. These are assets that the Council intends to hold in perpetuity, that have no determinable finite life, and in addition may have restrictions on their disposal. Any subsequent capital expenditure on such assets is added to the Balance Sheet valuation, as CIPFA guidance now advises that Community Assets are held at historic cost.

Assets included at the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income & Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

The Revaluation Reserve contains revaluation gains recognised since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Assets acquired under finance leases (where the lease value is over £12,000) are also capitalised in the Authority's accounts, together with the liability to pay future rentals.

When an asset is disposed of, its value in the Balance Sheet is written off to the Income & Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income & Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts. These are required to be credited to the Usable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

3. INTANGIBLE FIXED ASSETS

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (i.e. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

4. DEPRECIATION

Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

a) Newly acquired assets are depreciated from the year of acquisition to the last year, although assets in the course of construction are not depreciated until they are brought into use;

b) depreciation is calculated using the straight-line method for all classes of asset. The periods used for depreciation are as follows:

- Buildings – allocated over the life of the property as estimated by the valuer.

- Vehicles, Plant, Furniture & Equipment/Fixtures & Fittings - allocated over the life of the asset as estimated by a suitably qualified officer.

- Infrastructure – allocated over 20 years.

Revaluation Gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

5. IMPAIRMENT

The values for each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of the review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service account.
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income & Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

6. CHARGES TO REVENUE FOR FIXED ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. These entries are therefore replaced by revenue provision in the Statement of Movement on General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

7. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTUE (Previously known as Deferred Charges)

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

8. GOVERNMENT GRANTS AND CONTRIBUTIONS (REVENUE)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date the Council satisfies the conditions of entitlement to the grant/contribution. There is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income & Expenditure Account after Net Operating Expenditure.

9. LEASES

Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased item transfer to the Council. Rental payments are apportioned between:

- A charge for the acquisition of the interest in the item (recognised as a liability in the Balance Sheet at the start of the lease, matched with a tangible fixed asset – the liability is written down as the rental becomes payable)

- A finance charge (debited to Net Operating Expenditure in the Income & Expenditure Account as the rental becomes payable)

Fixed assets recognised under finance leases are accounted for using the policies generally applied to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

10. RESERVES

The current system of capital accounting requires the Council to maintain two reserve accounts in the Balance Sheet:

a) the Revaluation Reserve represents principally the balance of the gains arising on the periodic revaluation of fixed assets since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

b) the Capital Adjustment Account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

11. REDEMPTION OF DEBT

The policy regarding debt redemption is only to redeem debt when, taking into account all circumstances regarding current and potential future borrowing controls, and Housing Subsidy, it is economic and viable to do so. As the Council is currently debt-free, the policy is to use current and future capital receipts in a prudent manner, and it is not planned to borrow over the period of the Financial Plan.

12. DEBTORS AND CREDITORS

The revenue accounts for the Council are maintained on an accruals basis in accordance with the Code of Accounting Practice and standard accounting practice. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year.

An exception to this principle relates to electricity and similar quarterly payments which are charged at the date of the meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

Internal Debtors are netted against internal Creditors on consolidation.

13. STOCK AND WORK IN PROGRESS

Stocks are valued at average cost, and this is considered to be a satisfactory estimate of actual cost and therefore, is in compliance with SSAP9 which requires stocks to be valued at the lower of cost or net realisable value.

Work in progress on uncompleted jobs relates mainly to the Council's Direct Services section. Outstanding work is valued including provision for profits or losses on those jobs. Where the outstanding work is for an internal section the charges are netted on consolidation.

14. COSTS OF SUPPORT SERVICES & OVERHEADS

The costs of support services and overheads are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion with the benefits used, with the exception of:

- Corporate & Democratic Core – costs relating to the Council's status as a multi-functional democratic organisation.
- Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Income & Expenditure Account, as part of Net Cost of Services.

15. PENSIONS

From April 1st 2003 the Council has fully complied with the requirements of FRS 17 (Retirement Benefits), which has superseded the requirements of SSAP 24 (Accounting for

Pension Costs). This requires the Council to account for retirement benefits when it is committed to giving them, for all future years where such a commitment is due.

Employees of the Council are members of the Local Government Pensions Scheme, administered by Kent County Council (KCC). The Scheme is accounted for as a defined benefits scheme:

- The liabilities of the KCC pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate specified by the actuaries (based on the indicative rate of return on high quality corporate bonds.)
- The assets of the KCC pension fund attributable to the Council are included in the Balance Sheet at their fair value:

    - Quoted securities – current bid price
    - Unquoted securities – professional estimate
    - Unitised securities – current bid price
    - Property – market value

- The change in net pensions liability is analysed into seven components:

    - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Income & Expenditure Account to the revenue accounts of services for which the employees worked.

    - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income & Expenditure Account as part of Non Distributed Costs.

    - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income & Expenditure Account.

    - Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income & Expenditure Account.

    - Gains/losses on settlements & curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Income & Expenditure Account as part of Non Distributed Costs.

    - Actuarial gains & losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Statement of Total Recognised Gains & Losses.

    - Contributions paid to KCC pension fund – cash paid as employers' contributions to the pension fund.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

16. FINANCIAL LIABILITIES & ASSETS

The Council is currently debt-free and does not hold any financial liabilities on the Balance Sheet.

Financial assets are classified into two types:

- Loans & Receivables – assets that have fixed or determinable payments but are not quoted on an open market.

- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans & Receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income & Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income & Expenditure Account are based on the amortised cost of the asset multiplied the effective rate of interest for the instrument.

17.CONTINGENT LIABILITIES/ASSETS

Contingent liabilities and assets are recognised in the notes to the Balance Sheet. The contingent liability is not recognised within the accounts as the date of the possible transaction concerned is not sufficiently certain at this stage. The contingent asset is not accrued in conformity with the concept of prudence.

18. VALUE ADDED TAX

VAT is included in Income and Expenditure Account, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

19. POST BALANCE SHEET EVENTS

Post balance sheet events that have a material effect on the accounts as prepared at 31st March 2009 are included, if any are identified.

CORE STATEMENTS

INCOME & EXPENDITURE ACCOUNT

2007/08 Net £000	2008/2009 Classification	Expenditure £000	Income £000	Net £000
(65)	Central Services to the Public	52,016	49,909	2,107
16,557	Cultural, Environmental & Planning Services	24,420	7,326	17,094
1,800	Highways, Roads & Transport Services	5,236	3,906	1,330
2,068	Corporate & Democratic Core	2,305	89	2,216
93	Non-distributed Costs	893		893
6,504	Housing Services	5,947	1,342	4,605
26,957	**Net Cost of Services (Notes 1/2)**	**90,817**	**62,572**	**28,245**
(1,987)	(Gains)/Losses on Disposal of Fixed Assets			(841)
784	Parish Precepts			859
6	Interest Payable			6
37	Contribution of Housing Capital Receipts to Govt.Pool			25
(2,216)	Interest and Investment Income			(1,789)
680	Pensions Interest Cost & Expected Return on Pensions Assets			1,860
24,261	**NET OPERATING EXPENDITURE**			**28,365**
(12,569)	Precept Demanded from the Collection Fund			(13,076)
	Collection Fund Prior Year Adjustment			
(1,329)	General Government Grants (Note 3)			(1,304)
(7,919)	Distribution from Non-Domestic Rate Pool			(8,112)
2,444	**(SURPLUS)/DEFICIT FOR THE YEAR**			**5,873**

Note: (Gains)/Losses on Disposal of Fixed Assets

This credit figure does not represent the disposal of an asset, it represents ongoing receipts from Maidstone Housing Trust in respect of Right To Buy sales and a VAT sharing scheme that the Council is entitled to following the Large Scale Voluntary Transfer that took place in February 2004. Under the CIPFA Local Authority Accounting Code of Practice these receipts are to be treated as a gain on disposals.

STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

2007/08 £000		2008/09 £000
2,444	(Surplus)/Deficit on the Income & Expenditure Account	5,873
(3,773)	Net additional amounts required by statute & non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(4,748)
(1,329)	(Increase)/Decrease in General Fund Balance for the Year	**1,125**
(6,999)	General Fund Balance at 1st April	(8,328)
(8,328)	**General Fund Balance at 31st March**	**(7,203)**

NOTE TO THE STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

The Income & Expenditure Account shows the Council's actual financial performance for the year, measured in terms of resources consumed and generated over the last 12 months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when fixed assets are consumed.
- The payment of a share of housing capital receipts scores as a loss in the Income & Expenditure Account, but is met from the usable capital receipts balance rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance shows whether the Council has over or underspent against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income & Expenditure Account and the General Fund Balance.

2007/08 £000		2008/09 £000
	Amounts to be included in the Income & Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	
(148)	Amortisation of intangible fixed assets	(259)
(2,241)	Depreciation and Impairment of fixed assets	(2,224)
133	Government Grants Deferred Amortisation	284
(4,332)	Write downs of deferred charges to be financed from capital resources	(3,815)
1,987	Net gain or loss on sale of fixed assets	841
(2,630)	Net charges to be made for retirement benefits in accordance with FRS 17	(3,860)
(7,231)	**Total**	**(9,033)**
	Amounts not included in the Income & Expenditure Account but required by statute to be included when determining the Movement on the General Fund Balance for the year	
383	Capital expenditure charged in-year to the General Fund Balance	883
(37)	Transfer from Usable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(25)
3,112	Employers Contributions payable to the Local Government Pension Scheme and retirement benefits payable direct to pensioners	3,427
3,458	**Total**	**4,285**
(3,773)	**Net additional amount required to be credited to the General Fund balance for the year**	**(4,748)**

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income & Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and the re-measurement of the net liability to cover the cost of retirement benefits.

2007/08 £000		2008/09 £000
2,444	(Surplus)/Deficit on the Income & Expenditure Account	5,873
(3,730)	Acturial Gains & Losses relating to pensions	8,180
(1,974)	Gains on revaluation of fixed assets	(1,629)
296	Other recognised gains & losses	203
(2,964)	**Total recognised gains and losses for the year**	**12,627**

The other recognised gains and losses figure includes the increase or decrease in the Council's share of the year end balance on the Collection Fund (£0.059m).

BALANCE SHEET FOR THE YEAR ENDING 31ST MARCH 2009

2007/08 (Restated) £000		2008/2009 £000	£000
	FIXED ASSETS (Notes 11-13)		
	Operational Assets		
42,601	Land and Buildings	40,389	
1,568	Vehicles,Plant, Furniture and Equipment	1,694	
456	Fixtures and Fittings	2,997	
3,589	Infrastructure Assets	3,431	
63	Community Assets	235	48,746
	Non-operational Assets		
11,609	Investment Properties	11,634	
0	Under Construction	566	
213	Surplus for Resale	2,835	15,035
60,099			**63,781**
272	**INTANGIBLE FIXED ASSETS (Note 14)**	477	477
9,386	**LONG-TERM INVESTMENTS (Note 18)**		5,011
422	**LONG-TERM DEBTORS (Note 19)**	353	353
70,179	**TOTAL LONG TERM ASSETS**		**69,622**
	CURRENT ASSETS		
91	Stocks and Work in Progress (Note 20)	108	
16,867	Investments (Note 18)	13,919	
11,838	Debtors and Payments in Advance (Note 21)	12,786	
1	Cash and Bank	2	**26,815**
	CURRENT LIABILITIES		
1,522	Bank Overdraft	1,089	
2,544	Provision for Bad Debts	3,201	
9,785	Sundry Creditors (Note 22)	8,322	
390	Collection Fund (Note 27(f))	93	
2,768	Government Grants - Deferred (Note 23)	3,622	
1,191	Unapplied Govt.Grants & External Ctbns. (Note 24)	3,238	**19,565**
80,776	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**76,872**
209	Cobtree Trust (Note 25)	172	
28,850	Liability Related to Defined Benefit Pension Scheme (Note 26)	37,610	**37,782**
51,717	**TOTAL ASSETS LESS LIABILITIES**		**39,090**
	FINANCED BY:		
(28,850)	Pensions Reserve (Note 26)	(37,610)	
127	Deferred Capital Receipts (Note 27 (a))	105	
1,907	Revaluation Reserve (Note 27 (b))	3,513	
56,160	Capital Adjustment Account (Note 27 (c))	57,586	
13,970	Usable Capital Receipts Reserve (Note 27 (d))	8,276	**31,870**
	REVENUE BALANCES		
8,328	General Fund (Note 27 (e))	7,203	
75	Collection Fund (Note 27 (f))	17	**7,220**
51,717	**TOTAL CAPITAL EMPLOYED (Note 28)**		**39,090**

The restatement relates to the Pensions figures (£28.850m), which have been restated in accordance with figures provided by the Council's actuaries. Further details can be found in Note 26 to the Core Statements.

CASHFLOW STATEMENT

2007/08 £000		2008/09 £000	2008/09 £000
	REVENUE ACTIVITIES		
	EXPENDITURE		
17,465	Cash Paid to and on Behalf of Employees	19,796	
20,170	Other Operating Costs	20,757	
25,205	Housing Benefit Paid Out	28,179	
46,569	NNDR to Pool	50,062	
66,988	Precepts - KCC/KPA/KMTFA	70,191	
784	Parishes	859	
54	Payments to the Capital Receipts Pool	30	**(189,874)**
	INCOME		
1,254	Rents (after rebates)	1,243	
71,423	Council Tax Receipts	74,506	
7,919	NNDR from Pool	8,113	
47,183	Non-Domestic Rate Receipts	49,435	
1,329	Revenue Support Grant	1,304	
25,941	DWP Grants for Benefits	26,492	
9,628	Other Government Grants	12,462	
11,215	Cash Received for Goods and Services	11,030	
			184,585
(1,343)	**NET CASH FLOW FROM REVENUE ACTIVITIES**		**(5,289)**
	RETURNS ON INVESTMENT AND SERVICING OF FINANCE		
	EXPENDITURE		
(6)	Interest Paid		(6)
	INCOME		
1,949	Interest Received		1,845
600	**REVENUE RELATED MOVEMENT IN CASH AND CASH EQUIVALENTS**		**(3,450)**
	CAPITAL ACTIVITIES		
	EXPENDITURE		
4,071	Fixed Assets	6,110	
5,000	Purchase of Long Term Investments	2,000	
6,191	Other Capital Costs	4,277	**(12,387)**
	INCOME		
3,411	Sale of Fixed Assets	1,712	
989	Capital Grants Received	4,456	
415	Other Capital Cash Payments/Income	780	**6,948**
(9,847)	**NET CASH INFLOW/OUTFLOW BEFORE FINANCING**		**(8,889)**
	MANAGEMENT OF LIQUID RESOURCES		
9,450	Net (increase)/decrease in other Liquid Resources		9,322
	WHICH WAS FINANCED FROM:		
	EXPENDITURE		
	Repayments of Amounts Borrowed - Long Term		
(1,000)	Repayments of Amounts Borrowed - Short Term		(5,700)
-	Capital Element of Finance Lease Rental Payments		
	INCOME		
1,000	New Loans Raised		5,700
(397)	**INCREASE/(DECREASE) IN CASH**		**433**

NOTES TO THE CORE STATEMENTS

1 – Best Value Accountancy Code of Practice

The Statement of Recommended Practice (SORP) requires authorities to present the net cost of services using the Service Expenditure Analysis set out in the Best Value Accountancy Code of Practice. The SORP acknowledges that where an authority's management structure differs from the Service Expenditure Analysis/Standard Classification, a different presentation of the net cost of services can be adopted in accordance with the local structure. This allows performance to be reported in line with the way in which accountability for resources has been delegated. This note reconciles the net cost of services in the Income & Expenditure Account with the net cost under the Council's Cabinet structure.

2007/08		2008/09		
Net £000	Classification	Expenditure £000	Income £000	Net £000
286	Leader of the Council	1,500	750	750
1,181	Corporate Services	48,405	44,359	4,046
1,564	Community Services	2,014	421	1,593
8,397	Environment	18,708	10,659	8,049
9,754	Regeneration	10,798	2,564	8,234
5,775	Leisure & Culture	9,392	3,819	5,573
26,957	**Net Cost of Services**	**90,817**	**62,572**	**28,245**

2 – Section 137 of the Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council's expenditure was in relation to twinning and grants to outside bodies, and amounted to £24,576 (£17,243 in 2007/08)

3 – General Government Grants

General Government Grants is only the Revenue Support Grant. (£1.304m)

4 – Finance & Operating Leases

Vehicles, Plant, Furniture & Equipment - The authority uses gritter lorries, other commercial vehicles, wheeled bins and IT equipment, financed under the terms of an operating lease. The amount paid under these arrangements in 2008/09 was £312,665 (£342,489 in 2007/08).

The Authority was committed at 31st March 2009 to making payments of £128,732 under operating leases in 2009/10, comprising the following elements:

Vehicles, Plant, Furniture & Equipment

	£000
Leases expiring in 2009/10 (Rentals)	37
Leases expiring between 2010/11 & 2014/15 (Rentals)	92
Leases expiring after 2015/16 (Rentals)	0

5 – Trading Operations

The Council operates a variety of services which are subject to commercial risk, the most significant of which are listed below.

2007/08 £000	Operation	2008/09 Income £000	Exp. £000	(Surplus)/ Deficit £000
(249)	Market	(691)	521	(170)
(441)	Parkwood Industrial Estate	(466)	32	(434)
(865)	Pay & Display Car Parking	(1,825)	976	(849)
15	On-street Car Parking	(595)	610	15
1	Highways & Sewers	(191)	188	(3)
-	Building Cleaning	(253)	247	(6)
-	Street Cleaning	(1,583)	1,550	(33)
-	Parks	(2,137)	2,088	(49)

6 – Publicity

Set out below, in accordance with S.5(1) of the Local Government Act 1986, is the Council's spending on publicity.

2007/08 £000		2008/09 £000
68	Recruitment Advertising	147
201	Other Advertising	263
150	Other Publicity	125
419		**535**

7 – Remuneration of Senior Staff

The number of employees in 2008/09 whose remuneration fell above £50,000 is:

Number 2007/08	Remuneration £	Number 2008/09
7	50,000 - 59,999	11
8	60,000 - 69,999	3
7	70,000 - 79,999	6
1	80,000 - 89,999	1
1	90,000 - 99,999	1
1	100,000 - 109,999	1
0	110,000 - 119,999	1

8 – Members Allowances

The total sum of Members Allowances paid during 2008/09 totalled £422,200. (£411,250 during 2007/08)

The Council also produce a statement, in accordance with provision 1021- 15(3) of the Local Authorities (Members Allowance) (England) Regulations 2003, giving details of allowances paid to Members for the year. This can be viewed on the Council's website www.digitalmaidstone.co.uk.

9 – Building Control Trading Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain functions performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control unit divided between the chargeable and non-chargeable activities.

2007/08 £000		2008/09 Chargeable £000	2008/09 Non-Chargeable £000	2008/09 Total £000
	Expenditure			
285	Employee Expenses	297	20	317
40	Supplies & Services	60		60
184	Central & Support Services	132	8	140
509	**Total Expenditure**	**489**	**28**	**517**
	Income			
(542)	Building Regulation Charges	(458)		(458)
(542)	**Total Income**	**(458)**		**(458)**
(33)	**(Surplus)/Deficit for Year**	**31**	**28**	**59**

10 – Disclosure of Audit Costs

In 2008/09 the Authority incurred the following fees relating to external audit and inspection.

2007/08 £000		2008/09 £000
114	Fees payable with regard to external audit services	117
17	Fees payable for certification of grant claims and returns	19
3	Fees payable in respect of other services	4
134	**Total**	**140**

11 – Movement of Fixed Assets 2008/2009

OPERATIONAL ASSETS	Other Land & Buildings £000	Vehicles, Plant & Machinery £000	Fixtures & Fittings £000	Infrastructure £000	Community Assets £000	Total Operational Assets £000
Cost or Valuation						
At 1st April 2008	**44,564**	**2,291**	**506**	**5,592**	**63**	**53,016**
Additions	1,186	471	2,759	126	171	**4,713**
Disposals	(118)	0	0	0	0	**(118)**
Reclassifications	(3,292)	0	0	0	0	**(3,292)**
Revaluations	733	0	0	0	0	**733**
Impairment	(48)	0	0	0	0	**(48)**
Write-offs	(292)	0	0	0	0	**(292)**
At 31st March 2009	42,733	2,762	3,265	5,719	235	**54,714**
Depreciation & Impairments						
At 1st April 2008	(1,962)	(724)	(50)	(2,005)	0	**(4,741)**
Charge for 2008/09	(756)	(345)	(218)	(283)	0	**(1,602)**
Disposals	0	0	0	0	0	**0**
Reclassifications	303	0	0	0	0	**303**
Revaluations	71	0	0	0	0	**71**
At 31st March 2009	(2,344)	(1,069)	(268)	(2,288)	0	**(5,969)**
Balance Sheet amount at 31st March 2009	**40,389**	**1,694**	**2,997**	**3,431**	**235**	**48,745**
Balance Sheet amount at 31st March 2008	42,601	1,568	456	3,589	63	48,277
Nature of Asset Holding						
Owned	40,389	1,694	2,997	3,431	235	48,745

NON OPERATIONAL ASSETS	Investment Property £000	Surplus for Resale £000	Under Construction £000	Total Non-Op.Assets £000	Total Operational Assets £000	Total £000
Cost or Valuation						
At 1st April 2008	11,839	213	0	12,052	**53,016**	**65,068**
Additions	113	700	1,129	1,941	**4,713**	**6,655**
Disposals	0	(1,162)	(670)	(1,833)	**(118)**	**(1,950)**
Reclassifications	(215)	3,399	108	3,292	**(3,292)**	
Revaluations	717	105	0	823	**733**	**1,556**
Impairment	(525)	(5)	0	(530)	**(48)**	**(577)**
Write-offs	(107)	(29)	0	(136)	**(292)**	**(429)**
At 31st March 2009	11,823	3,221	566	15,610	**54,714**	**70,324**
Depreciation & Impairments						
At 1st April 2008	(229)	0	0	(229)	**(4,741)**	**(4,970)**
Charge for 2008/09	(25)	(82)	0	(107)	**(1,602)**	**(1,709)**
Disposals	0	0	0	0		
Reclassifications	0	(303)	0	(303)	**303**	
Revaluations	65	0	0	65	**71**	**136**
At 31st March 2009	(189)	(385)	0	**(574)**	**(5,969)**	**(6,543)**
				0		
Balance Sheet amount at 31st March 2009	**11,634**	**2,835**	**566**	**15,036**	**48,745**	**63,781**
Balance Sheet amount at 31st March 2008	11,609	213	0	11,822	48,277	60,099
Nature of Asset Holding						
Owned	11,634	2,835	566	15,036	48,745	63,781

Community Assets have all previously been revalued at £1 each, in accordance with Note 12. The Statement of Recommended Practice for Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute.

12 – Information on Assets Held

Significant Fixed Assets owned by the Council include the following:

31st March 2008	OPERATIONAL ASSETS	31st March 2009
	LAND & BUILDINGS	
2	Cemeteries & Crematoria	2
1	Golf Courses	1
2	Depots, Workshops, Stores & Toolshed	2
1	Halls	1
1	Leisure Centre & Pools	1
1	Markets	1
1	Multi-Storey Car Parks	1
2	Museums	2
19	Off-Street Car Parks	19
9	Offices	7
19	Public Conveniences	19
1	Theatres	1
1	Town Halls	1
	INFRASTRUCTURE	
2	Pumping Stations	2
17	Bus Shelters	17
	COMMUNITY ASSETS	
1	Band Stands	1
1	Clock Towers	1
3	Depots, Workshops, Stores & Toolsheds	3
1	Domestic Dwellings	1
3	Halls	3
221 Hectares	Parks & Open Spaces (over 2 Hectares)	221 Hectares
7	Pavilions	7
4	War Memorials	4
18	Allotments	18
3	Listed Buildings in Non-operational use	3
	NON-OPERATIONAL ASSETS	
	LAND & BUILDINGS	
7	Business Starter Units	7
3	Depots, Workshops, Stores & Toolsheds	3
40	Domestic Dwellings	39
8	Halls	8
2	Industrial Estates	2
3	Kiosks	3
1	Horticultural Nurseries	1
1	Offices	3
11	Pavilions	11
3	Shops	3
1	Old Palace Complex	1

Community Assets

In accordance with CIPFA guidance, Community Assets were previously valued at a nominal £1 each. These are assets that the Council intends to hold in perpetuity, that have no determinable finite life, and in addition may have restrictions on their disposal. The Statement of Recommended Practice for Local Authority Accounting requires Community Assets to be recorded on the Balance Sheet at Historic Cost. Due to the age and nature of many of the Community Assets it is not possible to ascertain an accurate historical cost, but expenditure incurred is now added to the value of the asset. Any expenditure on Community Assets was previously as Revenue Expenditure charged to Capital under Statute.

Several other Community Assets (Museum Displays/Commemorative Silver & Civic Regalia) which have not been given a valuation are held by the Council. These cannot easily be quantified in terms of numbers and therefore they have not been listed.

13 – Fixed Asset Valuation

The freehold and leasehold properties which comprise the Authority's Property Portfolio have been valued as at 1 April 2008 by the Corporate Property Manager – C Finch, MRICS - on the undermentioned bases in accordance with the appropriate sections of the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual, except that not all the properties were inspected. This was neither practicable nor considered by the valuer to be necessary for the purpose of the valuation.

Properties regarded by the Authority as operational were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost.

Properties regarded by the Authority as non-operational have been valued on the basis of open market value.

The fixed assets are being valued on a rolling programme over 5 years on the basis that each year a cross section of the Authority's portfolio will be selected for revaluation. For 2008/09 revaluations, inspections were carried out between April and May 2008.

Community assets are assets that the Council intends to hold in perpetuity, they have no determinable finite useful life, and in addition may have restrictions on their disposal. Therefore, they were all revalued, in 1995/96, at £1 each. The changes to capital accounting introduced in the 2007 Statement of Recommended Practice for Local Authority Accounting now require Community Assets to be recorded on the Balance Sheet at Historic Cost. Any expenditure on Community Assets was previously written off as Revenue Expenditure charged to Capital under Statute. Net Book Value as at the 31 March 2009 is now £0.235m.

Consideration has been given as to whether the value of the Council's property portfolio has been significantly affected by the recent economic downturn. It is the opinion of the Council's Valuer that due to the general nature of the properties shown on the balance sheet there has been minimal material impact upon reported values, it is therefore considered appropriate that no adjustment for Impairment has been made.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The basis for revaluation is set out in the Statement of Accounting Policies. The table excludes the expenditure to date on the Council's new depot, which is shown on the Balance Sheet under Assets Under Construction.

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Fixtures & Fittings £000	Community Assets £000	Sub-Total £000
Valued at historical cost	307	1,693	2,997	235	5,232
Valued at current value in:					
- 2004/05					0
- 2005/06	23,414				23,414
- 2006/07	8,428				8,428
- 2007/08	6,422				6,422
- 2008/09	1,818				1,818
Total	**40,389**	**1,693**	**2,997**	**235**	**45,314**

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	Sub-Total £000	Infrastructure Assets £000	Investment Properties £000	Surplus for Resale £000	Total £000
Valued at historical cost	5,232	3,431	14	3	**8,680**
Valued at current value in:					
- 2004/05	0		251		**251**
- 2005/06	23,414		507	2,130	**26,051**
- 2006/07	8,428		7,948	388	**16,764**
- 2007/08	6,422				**6,422**
- 2008/09	1,818		2,914	315	**5,047**
Total	**45,314**	**3,431**	**11,634**	**2,836**	**63,215**

14 – Intangible Fixed Assets

	Purchased Software £000
Original Cost	486
Amortisations to 1st April 2007	(213)
Balance at 1st April 2007	**273**
Expenditure in Year	463
Written off to Revenue in Year	(259)
Balance at 31st March 2009	**477**

The expenditure in year relates to the purchase or upgrading of software for a number of systems, the main one being the purchase of the Voice Over Internet Protocol telephone system for the new Council offices. The costs are being amortised on a straight line basis over 3 or 5 years, depending on the life expectancy of the system.

15 – Sources of Finance

2007/08 £000		2008/09 £000
0	**Opening Capital Financing Requirement**	**0**
	CAPITAL INVESTMENT:	
3,748	Fixed Assets: Operational	4,700
357	Fixed Assets: Non-operational	1,942
263	Intangible Assets	463
431	Deferred Charges	322
1,522	Renovation & Insulation Grants	1,861
4,073	Housing Association Support	2,145
29	Other Grants	0
	SOURCE OF FINANCE:	
(7,602)	Capital Receipts	(8,483)
(2,267)	Capital Grants & Contributions	(1,945)
(383)	Revenue Contributions	(883)
(171)	Commuted Sums	(122)
0	**Closing Capital Financing Requirement**	**0**

17 – Capital Commitments

At 31st March 2009, the Council's only significant commitments were £3.5m in respect of the new depot project, and £1.0m in respect of the replacement cremator works at the Crematorium.

18 – Financial Instruments

The Investments disclosed in the Balance Sheet are made up of the following categories of financial instruments (there were no borrowings at 31st March 2009):

	Long-Term		Short Term	
	31st March 2009 £000	31st March 2008 £000	31st March 2009 £000	31st March 2008 £000
Receivables	5,000	5,000	9,700	14,050
Available-for-sale Financial Assets	11	4,386	4,219	2,817
Total Investments	**5,011**	**9,386**	**13,919**	**16,867**

Investments intended to be held for 1 to 5 years are classed as long-term, those held for a period of less than 1 year are classed as short-term.

Receivables are initially measured at fair value and carried at their amortised cost. As these instruments are all held at fixed interest rates, fair value is assumed to be equal to the carrying value.

The Council has made a number of long-term investments in AAA rated Eurosterling Bonds, to be held for a variety of periods between 2 and 5 years. These are the Available-for-sale financial assets and were purchased using part of the proceeds of the Large Scale Voluntary Stock Transfer that took place in February 2004.

Available-for-sale assets are initially measured and carried at fair value. Fair value is assessed as being the market value of the investments as at 31st March 2009:

Carrying amount - £4.219m
Market Value - £4.304m

As the difference between the carrying amount and the market value is not materially significant no adjustment has been made to the carrying value on the Balance Sheet.

The balance held for long-term investments includes a premium payment which is being written off against interest received over the life of the investment.

The remaining investment in Eurosterling Bonds matures in 2009/10, therefore this is now classified as a short-term investment.

Disclosure of the nature and extent of risks arising from financial instruments:

The authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority.
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Chief Finance Officer and the

Treasury Management Accountant, under policies approved by the Council in the Annual Treasury Management Strategy.

The Council also provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash. These are set out in the Council's Treasury Management Practices, which are requirement of CIPFA's Treasury Management Code of Practice, which has been adopted by the Council. Treasury Management indicators have also been set to control key financial instruments risks in accordance with CIPFA's Prudential Code.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. There are limits based on credit ratings set on the amount and length of time deposits can be made with individual banks and financial institutions, and these are set out in the Annual Treasury Management Strategy, which can be viewed on the Council's website – http://www.digitalmaidstone.co.uk.

There are no credit limits set on the authority's customers, as the amounts involved are not considered sufficiently material to warrant the setting of such limits.

Liquidity Risk

The Council monitors its cashflow on a daily basis to ensure that there are sufficient funds available to meet its ongoing commitments. Borrowing is only undertaken on a short-term basis for cashflow purposes, and there is also an overdraft facility of £0.5m available with Nat West Bank.

Market Risk – Interest Rate Risk

As the Council is debt-free its only risk is in relation to exposure to interest rate movements in its investments. This exposure is managed by use of Prudential Indicators, which set limits on the proportion of investments held at fixed and variable rates. These indicators are monitored on a daily basis. The Council also makes use of interest rate forecasts and market data and advice provided by its Treasury Management advisors to ensure that investment income is maximised wherever possible.

19 – Long Term Debtors

2007/08 £000		2008/09 £000
85	Loans to Outside Bodies	75
126	Mortgages	105
1	Housing Act Advances	1
210	Cobtree Trust	172
422	**Total Long Term Debtors**	**353**

This balance represents sums due to the Council which are being repaid over a period of greater than one year.

20 – Stocks & Work In Progress

2007/08 £000		2008/09 £000
0	Work in Progress	0
	Stocks	
87	Stores	104
4	Stamps & Franks	4
91	Total Stocks	108
91	**Total Stock & Works in Progress**	**108**

The balance represents various stocks held by Council at year end. There were no works in progress at year end.

21 – Debtors & Payments In Advance

2007/08 £000		2008/09 £000
	Amounts falling due within one year	
439	Customs & Excise	134
289	Government Departments	809
5	Other Local Authorities	8
1,946	Council Tax Payers	2,324
638	NNDR Payers	1,374
0	Community Charge Payers	0
6,958	Sundry Debtors (including Capital)	6,640
905	Parking Penalty Charges	1,065
6	Employee Loans	0
11,186		**12,356**
	Amounts falling due after one year	
2	Employee Loans	3
11,188		**12,359**
650	Payments in Advance	427
11,838	**Total Debtors & Payments in Advance**	**12,786**

The Sundry Debtors balance of £6.640m is broken down as follows:

2007/08 £000		2008/09 £000
921	Outstanding invoices at year end	1,936
840	Overpayments of Housing Benefit Subsidy	1,085
2,530	Year end general debtors	1,607
2,035	Year end capital debtors	1,402
542	Other miscellaneous amounts due	610
6,868	**Total**	**6,640**

Year end general and capital debtors represent amounts owed to the Council which relate to 2008/09, but for which an invoice had not been raised by 31st March 2009

22 – Creditors

2007/08 £000		2008/09 £000
3,960	Sundry Creditors (including Capital)	3,860
1,857	Government Departments	933
351	Other Local Authorities	502
321	Council Tax Payers	379
1,937	NNDR Payers	1,273
0	Cobtree Trust	5
916	Receipts in Advance	792
394	Deposits	463
49	Retentions	115
9,785	**Total Creditors**	**8,322**

The variance in the Government Departments figure relates to the fact that the Government now owes the Council money in respect of Housing Subsidy, whereas at the end of 2007/08 it was the reverse situation.

23 – Government Grants Deferred

	2008/09 £000
Government Grants Deferred as at 1st April 2008	2,768
ADD Grants and Contributions Applied	1,138
LESS Amounts released to Consolidated Revenue Account	(284)
Government Grants Deferred as at 31st March 2009	**3,622**

This account is credited with grants (and other contributions) that have been used to support capital investment. The recognition of these grants/contributions as a gain to the authority is deferred until the amounts are released to the Income & Expenditure Account to abate depreciation charges on the relevant assets. The account holds the unamortised balance as deferred income.

24 - Unapplied Government Grants & External Contributions

	Ctbns. Unapplied 1st April 2008 £000	Ctbns. Received £000	Transfers £000	Capital Financing £000	Ctbns. Unapplied 31st March 2009 £000
Capital Grants & Contributions	364	3,404		(1,945)	**1,823**
Section 106 Agreements	827	710		(122)	**1,415**
	1,191	**4,114**	**0**	**(2,067)**	**3,238**

Unapplied Capital Grants & Contributions represent sums received for the funding of future capital (and some revenue) expenditure.

Section 106 Agreements are entered into as part of certain planning approvals, and require the developer to provide a sum which will be put towards a specific future purpose. This could be a capital project, a contribution towards future revenue costs, or it may need to be held by the Council until certain conditions are fulfilled, when it would then either be passed to a third party or a returned to the developer, depending on the terms of the agreement.

25 – Trust Funds

The Authority is required to set out details of the nature and amount of trust funds where it acts as sole trustee, the only one of which is the Cobtree Estate Trust. The object of this trust is to hold Cobtree Manor and Cobtree Manor Estate for the benefit of the inhabitants of Maidstone and other members of the general public.

Gross expenditure in 2008/2009 totalled £487,439 (£446,146 in 2007/2008). Gross income in 2008/2009 totalled £685,424 (£797,691 in 2007/2008)

The Assets and Liabilities of the Trust as at 31st March 2009 may be summarised as follows:

	£000	£000
ASSETS		
Fixed Assets:		
Cobtree Manor Golf Course	1,079	
Cobtree Rural Park	183	
Investments	953	
		2,215
Current Assets:		
Permanent Endowment	3	
Cash		
		3
Current Liabilities:		
Maidstone Borough Council	115	
Auditors	4	
		119
TOTAL ASSETS LESS CURRENT LIABILITIES		2,099
LONG TERM LIABILITIES		
Long Term Creditors:		
Maidstone Borough Council		57
NET ASSETS		**2,042**

None of the Trust assets and liabilities appears on the Balance Sheet of the Council, with the exception of the matching debits and credits relating to the liabilities shown above.

26 – Disclosure of Net Pensions Asset/Liability

Participation in pension schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme, administered locally by Kent County Council. This is a funded defined benefit final salary scheme, meaning the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with the investment assets.

Transactions relating to retirement benefits

The authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge the authority is required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement on General Fund Balance. The following transactions have been made in the Income & Expenditure Account during the year:

	2008/09 £000	2007/08 As restated £000
Income & Expenditure Account		
Net Cost of Services:		
Current Service Cost	1,420	1,930
Past Service Costs	520	0
Losses/(Gains) on Curtailments & Settlements	60	20
Net Operating Expenditure:		
Interest Cost	5,910	5,280
Expected Return on Scheme Assets	(4,050)	(4,600)
Net Charge to the Income & Expenditure Account	**3,860**	**2,630**

Statement of Movement on General Fund Balance:		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(3,860)	(2,630)
Actual amount charged against the General Fund Balance for pensions in the year:	3,427	3,112
Employers' contributions payable to scheme	**3,427**	**3,112**

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2008/09 £000	2007/08 As restated £000
1st April	86,370	98,480
Current Service Cost	1,420	1,930
Interest Cost	5,910	5,280
Contributions by scheme participants	740	630
Actuarial gains and losses	(6,960)	(15,910)
Past service costs	520	0
Losses/(Gains) on Curtailments	60	20
Estimated Unfunded Benefits Paid	(200)	(200)
Estimated Benefits Paid	(3,900)	(3,860)
31st March	**83,960**	**86,370**

Reconciliation of fair value of the scheme liabilities:

	2008/09 £000	2007/08 As restated £000
1st April	57,520	65,390
Expected Return on Assets	4,050	4,600
Contributions by scheme participants	740	630
Contributions by the Employer	3,240	2,910
Contributions in respect of unfunded benefits	200	200
Actuarial gains and losses	(15,300)	(12,150)
Unfunded Benefits paid	(200)	(200)
Benefits paid	(3,900)	(3,860)
31st March	**46,350**	**57,520**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £11.290m (£3.510m in 2007/08)

Scheme History

	2004/05 * £000	2005/06 * £000	2006/07 As restated £000	2007/08 As restated £000	2008/09 £000
Present value of liabilities:					
Local Government Pension Scheme	(85,497)	(99,540)	(98,480)	(86,370)	(83,960)
Fair value of assets in the Local Government Pension Scheme	49,031	61,800	65,390	57,520	46,350
Surplus/(deficit) in the scheme:	**(36,466)**	**(37,740)**	**(33,090)**	**(28,850)**	**(37,610)**
Experience Gains/(Losses) on Assets	1,934	9,746	(420)	(12,150)	(15,300)
Experience Gains/(Losses) on Liabilities	(3,202)	(53)	130	2,700	30

* The Council has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17 (as revised)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £37.610m has a substantial impact on the net worth of the Council as recorded on the Balance Sheet, resulting in a negative overall balance of £15.300m.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit on the local government scheme will be made good by increased contributions over the working life of employees, as assessed by the scheme actuary.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc. The Kent County Council Pension Fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the Fund being based upon the latest full valuation of the scheme as at 1st April 2007.

The principal assumptions used by the actuary have been:

	2008/09	2007/08 As restated
Long-term expected rate of return of assets in the scheme:		
Equity investments	7.0%	7.7%
Bonds	5.4%	5.7%
Property	6.3%	7.0%
Cash	4.0%	4.8%
Mortality assumptions:		
Longevity at 65 for current pensioners:		
Men	21.5 years	-
Women	24.4 years	-
Longevity at 65 for future pensioners:		
Men	22.6 years	-
Women	25.5 years	-
Rate of inflation	3.1%	3.6%
Rate of increase in salaries	4.6%	5.1%
Expected Return on Assets	6.3%	7.0%
Rate for discounting scheme liabilities	6.9%	6.9%
Take-up of option to convert annual pension into retirement lump sum		

The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

Fair Value of Employer Assets

	31st March 2009 £000	31st March 2008 £000
Equity Investments	30,590	39,950
Bonds	7,880	8,070
Property	4,170	6,220
Cash	3,710	3,280
	46,350	**57,520**

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2009.

	2004/05	**2005/06**	**2006/07 As restated**	**2007/08 As restated**	**2008/09**
	%	**%**	**%**	**%**	**%**
Acturial Gains / (Losses)	(14,201)	(523)	4,990	3,760	(8,340)
Increase/(Decrease) in Irrecoverable Surplus from Membership	0	0	0	0	0
Acturial Gains / (Losses) recognised in STRGL	(14,201)	(523)	4,990	3,760	(8,340)
Cumulative Acturial Gains/(Losses)	**(14,201)**	**(14,724)**	**(9,734)**	**(5,974)**	**(14,314)**

27 – Summary Introduction to Detail of Movement on Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to indicate resources for future spending plans and objectives.

Reserve	Balance at 1st April 2008 (Restated) £000	Gains or Losses £000	Transfers between Reserves £000	Net Movement in year £000	Balance at 31st March 2009 £000
Pensions Reserve	(28,850)	(8,760)		(8,760)	(37,610)
Deferred Capital Receipts	127		(22)	(22)	105
Revaluation Reserve	1,907	1,606		1,606	3,513
Capital Adjustment Account	56,160	(7,054)	8,482	1,428	57,588
Useable Capital Receipts Reserve	13,970	2,765	(8,460)	(5,695)	8,275
General Fund	8,328	(1,125)		(1,125)	7,203
Collection Fund	75	(59)		(59)	16
	51,717	**(12,627)**	**0**	**(12,627)**	**39,090**

The purposes of the various reserves are as follows:

- Pensions Reserve – balancing account to allow the inclusion of the Pensions Liability in the Balance Sheet. This is detailed in note 26.
- Deferred Capital Receipts - amounts derived from the sale of assets which will be received in instalments over agreed periods of time.
- Revaluation Reserve – store of gains on revaluation of fixed assets not yet realised through sales.
- Capital Adjustment Account – store of capital resources set aside to meet past expenditure.
- Useable Capital Receipts – proceeds of fixed asset sales available to meet future capital investment.
- General Fund – resources available to meet future running costs for non-housing services.
- Collection Fund – a statutory account to account for the collection and payment of Council Tax and Non-Domestic Rates.

Note 26 provides further details of the Pensions Reserve, whilst details of the remaining reserves are set out below.

a) Deferred Capital Receipts

	£000
Deferred Capital Receipts as at 1st April 2008	127
LESS Capital Receipts Received	(22)
Deferred Capital Receipts as at 31st March 2009	**105**

Deferred Capital Receipts are amounts derived from the sale of assets which will be received in instalments over agreed periods of time or where the receipts have not been received by the year end. They arise totally from mortgages on sales of council houses.

b) Revaluation Reserve

		£000
Revaluation Reserve as at 1st April 2008		1,907
ADD	Revaluation Gains	1,629
LESS	Historic Cost Depreciation Adjustment	(23)
Revaluation Reserve as at 31st March 2009		**3,513**

The reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

The reserve is also debited with amounts equal to the part of the depreciation charges on assets that has been incurred only because the asset has been revalued. On disposal, the Revaluation Reserve balance for the asset disposed of is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the current value of the fixed assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

Whilst these gains arising from revaluations increases the net worth of the authority they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

c) Capital Adjustment Account

	£000	£000
Capital Adjustment Account as at 1st April 2008		56,160
ADD:		
Historic Cost Depreciation Adjustment		23
Capital Financing:		
Capital Receipts	8,483	
Revenue Contributions	883	
Grants/Contributions	929	
Government Grants Deferred Account	284	
		10,579
LESS:		
Write Down of Deferred Charges	(4,607)	
Impairment	(515)	
Depreciation	(1,709)	
Amortisation of Intangible Fixed Assets	(259)	
Asset Disposal	(1,950)	
Prior Year Adjustments *	(136)	
** - Assets disposed of in previous years*		(9,176)
Capital Adjustment Account as at 31st March 2009		**57,586**

The account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (Revenue Expenditure Funded from Capital under Statute). The balance on the account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

d) Useable Capital Receipts Reserve

		£000
Useable Capital Receipts Reserve as as 1st April 2008		13,970
ADD:	Capital Receipts	2,814
LESS:	Capital Receipts Applied	(8,483)
	Pooled Capital Receipts	(25)
Useable Capital Receipts Reserve as as 31st March 2009		**8,276**

The Usable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside any statutory amounts for the repayment of external loans.

e) General Fund Balances

2007/08 £000		2008/09 £000
6,068	General	5,600
945	Invest to Save	579
200	Large Buildings Maintenance Fund	0
1,000	Local Development Framework Fund	884
86	Trading Accounts	30
29	Asset Replacement	110
8,328	**Total General Fund Balance**	**7,203**

In addition to the separately identified balances listed above, which are for future planned objectives, the General Balance of £5.603m includes £0.969m for minor schemes to be completed in 2009/10.

f) Collection Fund

The Collection Fund is a statutory fund in which the Council records transactions for Council Tax, Business Rates and Residual Community Charges. The balance on the fund is available as follows:

Authority	**£000**
Maidstone Borough Council	17
Kent County Council	78
Kent Police Authority	10
Kent & Medway Towns Fire Authority	5
Total	**110**

On the Balance Sheet the Collection Fund balance is disaggregated between the figure owed to the Council (£0.017m) which is shown as part of the Council Balances and Funds, and the remainder (£0.093m) which is shown as a Current Liability, as these Authorities are creditors.

28 – Analysis of Net Assets Employed

Net Assets Employed as at 31st March 2008 (Restated)		Net Assets Employed as at 31st March 2009
£000		**£000**
51,642	General Fund	39,073
75	Collection Fund	17
51,717		**39,090**

The decrease in balances is explained in the Explanatory Foreword.

29 – Related Party Transactions

During the year transactions with related parties arose as follows:

	£000
Receipts	
Central Government - Revenue Grants	41,485
Payments	
Kent County Council - Precept	58,620
Kent Police Authority - Precept	7,505
Kent & Medway Towns Fire Authority - Precept	3,734
Kent County Council - Pension Fund	327

All Members and Senior Officers were required to complete a declaration of interests that included details of any finance-related transactions with the Council. There was only one declaration of a material nature – one Member is the Director of a charitable organisation that receives a £6,000 grant from the Council.

30 - Contingent Asset

The Council has made a claim to HM Revenues & Customs for the recovery of VAT paid in respect of off street car parking. This was as a result of a European Court of Justice ruling in favour of the city of Oporto in Portugal regarding VAT treatment of the income

The claim is for £2,503,204, and covers the financial years 1998/99 to 2008/09.A number of other Authorities are also pursuing similar claims. The Council have not currently made any allowance for any settlement in this statement as this issue is still ongoing.

HM Revenue & Customs' current appeal to the High Court against the European Court of Justices' decision has been referred back to the European Court of Justice by the High

Court. Current estimates suggest a waiting time of two years for a ruling. HM Revenue & Customs' current advice is that any refunds would be subject to unjust enrichment rules and may not benefit local authorities directly.

The Council has also submitted a claim to HM Revenues & Customs under the principles established in the *Fleming/Conde Nash* decision in the House of Lords. This permits the Council to apply for a refund of VAT dating back to 1981/82 on the basis that the House of Lords decision overturned a 3 year capping rule on VAT refunds that had been in place. An application has been made for refunds totalling £2.1m, but it is anticipated that the payment will probably be in the region of £0.700m. It is also difficult at this stage to clarify when any payment might be made as HM Revenue & Customs are dealing with a large number of similar claims from local authorities all over the UK.

31 – Contingent Liability

The Council entered into a PFI Agreement with Kent County Council and nine other Kent District Councils in 2006/07 which aims to provide affordable housing throughout the county. In the event of the contractor defaulting on its obligations 10 years into the contract there is the possibility of the Council incurring an estimated liability of £6.954m, and in the event of the contract being terminated through force majeure after 10 years there is an estimated liability of £8.052m. Whilst these scenarios are considered highly unlikely the sums concerned are material enough to be noted.

32 – Euro Costs

The Council only made a small number of low value payments in Euros during 2008/09, and therefore does not have a specific account for these transactions, which are shown as sterling payments in the Council's bank account based on the exchange rate at the time.

33 – Post Balance Sheet Events

The Statement of Accounts were authorised for issue by the Director of Resources & Partnerships on 15 June 2009, the date on which they were presented to the Council's Audit Committee to recommend formal approval to full Council.

There have been no events arising between the Balance Sheet date of 31st March 2009 and the date of authorisation above that materially effect the figures on the Balance Sheet.

34 – Cashflow Statement: Reconciliation of Net Surplus/Deficit on Income & Expenditure Account

Reconciliation of net surplus / deficit on the Income & Expenditure Account to the net cash flow from revenue activities.

2007/08 £000		2008/09 £000	
(2,444)	**SURPLUS/ (DEFICIT) ON INCOME & EXPENDITURE ACCOUNT**		(5,293)
	Surplus / (Deficit) on other funds		
(784)	Collection Fund		(354)
	Non-Cash Transactions		
4,156	Non-cash amounts requiring exclusion from the Income & Expenditure Account. (See Statement of Movements in the General Fund.)		4,169
	Items on an Accruals Basis		
1,621	Increase / (Decrease) in Creditors	(3,516)	
(1,937)	(Increase) / Decrease in Debtors & Payments in Advance, less Provision for Bad Debts	1,562	
(12)	(Increase) / Decrease in Stock	(18)	(1,972)
	Items Classified Later in the Statement		(1,839)
(1,943)	Servicing of Finance		
(1,343)	**NET CASH FLOW FROM REVENUE ACTIVITIES**		(5,289)

35 – Cashflow Statement: Movement in Cash

The movement in bank and cash is analysed as follows. The Authority is debt free and there is no reconciliation to net debt.

	£000
31st March 2008 (Net overdraft)	1,522
31st March 2009 (Net overdraft)	1,089
Movement	433

36 – Cashflow Statement: Movement in Liquid Resources

The movement in liquid resources is analysed as follows. Liquid resources are defined as the short-term investment (less than 365 days) of surplus funds made by the Authority.

	£000
31st March 2008	16,867
31st March 2009	13,919
Long term investments recategorised in 2008/09	6,374
Cash Movement	9,322

37 – Cashflow Statement: Analysis of Government Grants

Other Government Grants shown in the statement are analysed as follows:

2007/08 £000	Grant	2008/09 £000
0	Local Authority Business Growth Initiative	1,021
7,563	Council Tax Benefit	8,192
928	Benefit Administration	971
1,137	Miscellaneous	2,278
9,628	**Total**	**12,462**

38 – Group Accounts

The authority has no financial relationships with other organisations or entities that give rise to the need to include Group Accounts within this Statement.

39 – Local Area Agreement

The Local Area Agreement has been developed at a County Level with Kent County Council the Accountable Body. Maidstone Borough Council played an active role as part of the development of the latest agreement with the governance arrangements endorsed by the Leader in May 2008. The Council and Local Strategic Partnership are currently working on the Local Action Plan and this will determine which of the 35 targets are a priority for Maidstone.

Whether any additional resources are put into these priority areas or indeed whether these are viewed as a priority across Kent will be a decision for the Kent Partnership.

COLLECTION FUND

2007/08 £000		2008/09 £000	£000
	INCOME		
71,549	Income From Council Tax	75,152	
	Transfers From General Fund		
7,474	Council Tax Benefit	8,087	
	Council Tax Reduction Scheme (Note 1)		**83,239**
46,518	Income From Non-Domestic Rates (Note 2)		**50,836**
	Adjustment To Previous Years Community Charge		
	Council Tax Benefit Subsidy Limitation		
125,541	**Total Income**		**134,075**
	EXPENDITURE		
	Precepts and Demands		
55,669	Kent County Council	58,620	
7,054	Kent Police Authority	7,505	
12,434	Maidstone Borough Council	13,013	
3,560	Kent & Medway Towns Fire Authority	3,734	
			82,872
	Non-Domestic Rates		
46,313	Payments To National Pool	50,628	
206	Cost of Collection Allowance	208	
			50,836
	Bad and Doubtful Debts		
174	Write Off	160	
76	Additional / (Reduced) Provision For Non Payment	165	**325**
839	Contribution toward previous year's Collection Fund surplus		**396**
126,325	**Total Expenditure**		**134,429**
(784)	Surplus/(Deficit) For Year		(354)
1,248	Surplus Brought Forward From Previous Years		464
464	**Surplus as at 31st March 2009 (Note 4)**		**110**

NOTES TO THE COLLECTION FUND

1 – Council Tax

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating, for this specific purpose, 1 April 1991 values. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Kent County Council, Kent Police Authority and this Council for the forthcoming year and dividing this by the council tax base [the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts: 58,514.8 for 2008/09

(57,892.6 for 2007/08) (see table below)]. This basic amount of council tax for a Band D property £1,401.57 for 2008/09 (£1,349.78 for 2007/08) is multiplied by the proportion specified for the particular band to give an individual amount due. Parish Precepts are added to this basic amount.

The bands, number of dwellings in each, the multiplier for each and the resultant tax base are detailed in the table below.

Band	Number of Dwellings	Multiplier	Council Tax Base
Band A (incl disabled relief)	1.50	5/9	0.8
Band A	3,303.25	6/9	2,202.2
Band B	6,783.75	7/9	5,276.3
Band C	14,812.75	8/9	13,166.9
Band D	14,725.25	9/9	14,725.3
Band E	8,011.50	11/9	9,791.8
Band F	4,700.25	13/9	6,789.3
Band G	3,376.25	15/9	5,627.1
Band H	275.75	18/9	551.5
			383.6
			58,514.8

Council Tax income is as follows:

	£000
Initial Accounts	91,309
Additional Accounts	1,303
Less: Reduced Accounts	(9,213)
	83,399
Less: Amounts written off	(160)
	83,239

2. Income from Non-Domestic Rates

Under the National System for non-domestic rates, the Council collects from local businesses an amount equal to the rateable value of their property multiplied by a uniform rate set by the Government. This money is paid into a National Pool. The Council receives in return a contribution from the Pool based on a standard amount per head of local adult population. This is paid into the Council's General Fund.

Non-Domestic Rate Income to the Collection Fund is as follows:

	£000
Non-Domestic Rateable Value £133.971m *(£124.402m 2007/08)*	63,075
Non-Domestic Rate Multiplier 46.2p *(44.4p 2007/08)*	
Small Business Multiplier 45.8p *(44.1p 2007/08)*	
Less: Allowances and adjustments during the year	(12,239)
Net Income to Fund	**50,836**

3. Adjustment for Previous Years Community Charge

Although Council Tax replaced Community Charge on 1st April 1993, the Council has continued to account for residual adjustments in relation to the Community Charges raised in earlier years in the Collection Fund. The Council has carried a full provision against any residual debt and in 2007/08 a decision was taken to utilise the provision and write off the remaining debt of £18,929.

4. Surplus/(Deficit) on the Collection Fund re Council Tax

Any surplus at the year end is distributed amongst the precepting authorities over the following two financial years. A deficit must be covered by council tax raised the following year. The distribution for 2008/09 given in the tables below is of a surplus.

Surplus at 31st March 2009 (£000) £464

Distribution:	2008/09 £000	2009/10 £000
Maidstone Borough Council	62	11
Kent County Council	280	49
Kent Police Authority	35	6
Kent & Medway Towns Fire Authority	18	3
	395	**69**

2008/09 Surplus (£000) £110

Distribution:	2009/10 £000	2010/11 £000
Maidstone Borough Council	17	
Kent County Council	78	
Kent Police Authority	10	
Kent & Medway Towns Fire Authority	5	
	110	

The amount distributed has to be used by each authority to reduce the amount of Council Tax that they have to raise to finance their own expenditure. The distribution is calculated by reference to the proportion of the respective precepts and demands made in the previous year. For 2010/11 the distribution required is less than £1,000.

5. Amounts Written Off

The following amounts were written off during the year:

	2007/08 £000	2008/09 £000
Council Tax	174	160
Non-Domestic Rates	252	231
Community Charge	19	
	445	**391**

GLOSSARY OF FINANCIAL TERMS

ACCOUNTS
Statement aggregating items of income and expenditure and assets and liabilities. The accounts may show detailed transactions for every activity (generally used for management and control purposes during a financial year) or be summarised to show the overall position at the end of the period. The latter are known as final accounts and show both the net surplus (profit) or deficit (loss) and a balance sheet of the assets, liabilities and other balances at the end of the accounting period. Authorities are required to publish a Statement of Accounts as specified in the *Accounts and Audit Regulations 2003*.

BALANCE SHEET
A statement of the assets, liabilities and other balances of an authority at the end of an accounting period.

BALANCES
Capital or revenue reserves of an authority made up of the accumulated surplus of income over expenditure on the general fund or any other account. Revenue balances may be utilised to provide for unforeseen circumstances, to ensure that payments can be made pending the receipt of income, and if justified they may be used to reduce the collection fund levy.

CAPITAL EXPENDITURE
Generally, expenditure which is of value to an authority in the provision of services beyond the end of the financial year in which it was incurred, e.g. purchase of land and buildings, construction or improvement of buildings.

CAPITAL FINANCING
The raising of money to pay for capital expenditure. Usually the cost of capital assets is met by borrowing, but capital expenditure may also be financed by other means such as leasing, contributions from the revenue accounts, the proceeds of the sale of capital assets, capital grants, reserves and other contributions.

CAPITAL RECEIPTS
Proceeds from the sale of capital assets. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure, subject to compliance with statutory requirements.

CREDITORS
Amounts owed by an authority for work done, goods received, or services rendered but for which payment had not been made at the date of the balance sheet.

DEBTORS
Sums of money due to the authority but unpaid at the balance sheet date.

DEPRECIATION
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

FIXED ASSETS
Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

Intangible assets are assets that do not have a physical substance but are identifiable and controlled by the authority, such as computer software.

OPERATIONAL ASSETS
Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

NON-OPERATIONAL ASSETS
Fixed assets held by a local authority, but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

GENERAL FUND
The main revenue account of a charging authority that summarises the cost of all services provided by the Council.

REVENUE EXPENDITURE FUNDED FROM CAPITAL BY STATUTE
Previously known as Deferred Charges. Capital payments that do not give rise to an asset such as house renovation grants.

REVENUE SUPPORT GRANT
A general grant paid by central government to local authorities to help finance the cost of services. It is paid to charging authorities for credit to the Collection Fund.

REVENUE ACCOUNT
An account which records the day to day expenditure and income of an authority on such items as salaries and wages, running costs of services, the purchase of consumable materials and equipment, and the financing costs of capital assets.

SUPPORT SERVICES
An allocation of the net cost of the administrative and professional departments which provide support for all the Council's services (e.g. Executive Services, Finance, Personnel), together with the costs of pooled administrative buildings.

USABLE CAPITAL RECEIPTS
Funds received by an authority from the sale of capital assets that have yet to be used to finance capital expenditure or repay debt.

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

REPORT OF THE HEAD OF FINANCE

Report prepared by Paul Holland (Senior Accountant)
Date Issued: 15th June 2009

1. IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

1.1 Issue for Decision

1.1.1 To consider the current progress to date of the implementation of IFRS within the Council, and to consider the future timetable and work required.

1.2 Recommendation of the Head of Finance

1.2.1 That the Committee notes the progress to date and endorses the proposed future implementation plan.

1.3 Reasons for Recommendation

1.3.1 The Council will be required to produce its Statement of Accounts in accordance with the requirements of IFRS from 2010/11 onwards. However there is a great deal of preparatory work that will need to take place prior to this date.

1.4 Background Information & Implementation Plan

1.4.1 Local Authority Accounts are currently prepared using UK Generally Accepted Accounting Practice (GAAP), but it was announced in the 2007 Budget that the UK Public Sector would adopt International Financial Reporting Standards (IFRS - adapted as necessary for the public sector)

1.4.2 The first full IFRS compliant accounts for 2010/11 will be approved by Members on 30th June 2011. Prior to that there will be a lead in period where work will be required to convert the current GAAP accounts to the IFRS format. As the 2010/11 accounts will require 2009/10 comparators on the Balance Sheet and within other Statements and Notes the first stage in the process will be to produce an IFRS based opening Balance Sheet as at 1st April 2009 – that is based on 2008/09 year end figures, so work will need to begin during 2009/10 to get to this starting point.

1.4.3 The introduction of IFRS will mean significant changes in a number of areas:

- Fixed Assets – there are going to be changes in respect of asset valuation methodology and the accounting for fixed assets, in particular the introduction of component accounting. This means different elements of an asset may need to be accounted for separately depending on its component parts. For example at present we have one value for the Leisure Centre – under IFRS we would have to have separate values for the land, building, roof, lifts, engineering plant and so on. This will impact on the current asset register and the valuation process, as more specialist guidance will be needed for non-building valuations.

- Leases – IFRS will change the way a lease is determined as being either a finance or operating lease. Rather than the current quantitative test more of a judgment will need to be made. There may also need to be some separation of component elements of a lease if applicable. Each of our current leases will need to be reviewed to assess the likely IFRS impact, and it may be possible that our leasing advisors can offer some assistance.

- PFI – At present we have no PFI schemes of our own, although we are involved in the county-wide Housing PFI scheme. However we will need to be aware of the requirements should we become more involved in a PFI scheme in the meantime.

- Group Accounts – Under GAAP we do not have any relationships that require us to produce Group Accounts. However there are different tests under IFRS, the key one being the ability to exert influence over a 3rd party even if we do not currently do so. The main area of concern here is likely to be our relationship with the Cobtree Trust.

- Format of Accounts – The accounts are likely to increase in length due the number of additional disclosures. The exact detail of the format is yet to be determined, but an IFRS based Statement of Recommended Practice (SORP) is in the process of being compiled.

- Employee Benefits – IFRS will require authorities to accrue for employee benefits that have been earned by staff but not yet taken. This means untaken leave and flexi time as at 31st March will need to be accrued for.

1.4.4 Work has already begun on the implementation process. Senior staff in the Accountancy section have already attended a number of briefings and seminars relating to the implementation of IFRS, and will continue to do so. An outline project timetable has been drawn up and this is attached at **Appendix A**. A risk assessment has also been undertaken on the implementation process.

1.4.5 There will be liaison with our external auditors to ensure that they are satisfied with our progress to date, and there have also been preliminary discussions with the other Mid-Kent Improvement Partnership authorities regarding the adoption of a common approach to the implementation. Attached at **Appendix B** is a briefing paper produced by the Audit Commission that summarises their approach to project planning for the implementation of IFRS.

1.5 Resource Requirements

1.5.1 Clearly the introduction of IFRS is one of the most significant changes to Local Authority accounting for a number of years. Nevertheless the first set of IFRS compliant accounts will need to be of a high standard to ensure that there is no adverse impact upon the both the reputation of the Council and its Use of Resources assessment. It is therefore important that the preparation for IFRS is thorough and adequately resourced.

1.5.2 There is likely to be a significant amount of work involved in those areas identified above as where the significant changes will occur. This will impact not only upon the Accountancy section but on other departments as well. There is a potential financial impact should consultants be involved at any point in the process, for example the requirement for fixed asset component accounting may require specialist valuation services, and there may be an increase in external audit fees. Equally if the preparation work proves to be considerably time-consuming additional staffing may be required to maintain the quality of day to day operation within the Accountancy section.

1.6 Alternative Action and why not Recommended

1.6.1 There are no alternatives as the production of an IFRS-compliant Statement of Accounts will be a statutory requirement.

1.7 Impact on Corporate Objectives

1.7.1 Production of a Statement of Accounts that does contain any material or significant errors is a key element of the annual external assessment process. It is therefore important that the first IFRS-based Statement meets this requirement.

1.8 Risk Management

1.8.1 The primary risk is that the Council fails to produce its accounts in accordance with the requirements of IFRS. A risk assessment has been undertaken to mitigate this risk, and the proposed plans outlined above will ensure that the potential of failure is significantly reduced.

1.9 Other Implications

1.9.1

1.	Financial	
2.	Staffing	
3.	Legal	
4.	Social Inclusion	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes [ ] No [X]

If yes, when did it appear in the Forward Plan? _______________

Is this an Urgent Key Decision? Yes [ ] No [X]

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

APPENDIX A

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS
DRAFT PROJECT TIMETABLE

Target Date	Date Achieved	Task
10 December 2008	10 December 2008	Attend FAN IFRS Training Course
31 January 2009	26 January 2009	Produce Outline Briefing Paper
31 January 2009	29 September 2009	Set up IFRS section on Teamsite
31 March 2009	24 March 2009	High Level Impact Assessments - Fixed Assets, Leases & Employee Benefits
16 June 2009	16 June 2009	Brief Audit Committee on progress to date
31 July 2009		Impact Assessment on remaining minor changes
31 July 2009		Identify changes to accounting policies
31 July 2009		Finalise detailed project plan
31 August 2009		Identify systems & procedural changes required
31 August 2009		Identify & obtain information required to Balance Sheet at 1st April 2009
30 September 2009		Restate Balance Sheet at 1st April 2009
30 September 2009		Develop skeleton IFRS Statement of Accounts
30 September 2009		Identify if there is any likely impact on budgets
31 January 2010		Compile budgets for 2010/11 and onwards on IFRS basis
30 June 2010		Restate 2009/10 accounts on IFRS basis in line with main accounts under UK GAAP
30 June 2011		Produce 2010/11 accounts on IFRS basis

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Managing the transition to IFRS

Local government IFRS briefing paper 3

In our previous two briefing papers, published in May and September 2008, we looked at the background to the introduction of international financial reporting standards (IFRS) into the public sector and considered what auditors can and cannot do to support organisations as they prepare for the transition to IFRS.

In this third briefing paper, we consider the project management processes that authorities need to have in place if they are to publish timely and accurate IFRS-compliant accounts for 2010/11. We also identify those issues that we believe will have the most significant impact on authorities' accounts, subject to any adaptations that the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) may make to the standards.

audit commission

As we publish this briefing paper, CIPFA/LASAAC is continuing its deliberations regarding the development of an IFRS-based accounting code (the Code), under the auspices of the Financial Reporting Advisory Board. Early drafts of sections of that code are available on the CIPFA website and consultations will continue over the coming year. We encourage authorities to participate actively in that consultation process, not only to help shape future financial reporting under IFRS, but also to help them identify the issues they will need to address at an early stage.

Managing the transition

IFRS 1: First Time Adoption of International Financial Reporting Standards establishes the requirements for the transition from Generally Accepted Accounting Practice (UK GAAP) to IFRS. The standard, as adapted by the Code, requires full retrospective application of IFRS from a 'date of transition to IFRS' in many cases. That transition date is defined as being 'the beginning of the earliest period for which an entity presents full comparative information under IFRS in its first IFRS financial statements'. Consequently, if authorities are to prepare IFRS-compliant accounts for 2010/11 with full comparative data, the date of transition is 1 April 2009. In other words, authorities will need to be able to restate their opening balance sheet as at 1 April 2009 in IFRS form (Figure 1).

To assist authorities in planning their transition process, CIPFA has published *LAAP Bulletin 80*. This contains an indicative timeline that identifies the steps authorities will need to undertake to achieve transition and suggests dates by which those steps should be completed. If authorities are to achieve the transition, they need to be identifying now what they need to do in order to manage the restatement process.

In the Commission's view, the following are the key issues that need to be considered when project managing the transition to IFRS:

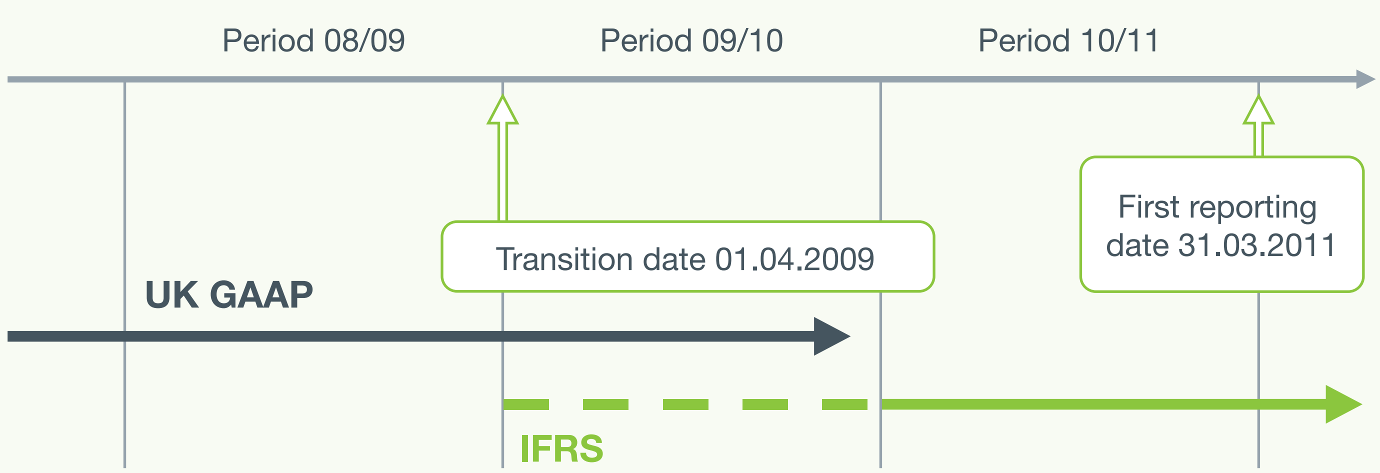
Risk-based planning

Not all transactions and accounting entries will be affected by the change to IFRS. Consequently, authorities need to assess which of their transactions and accounting entries may be materially affected by the change and then focus on those areas. When assessing the impact, authorities need to recognise that changes will not only affect the restated accounts, but also have potential implications for future budgets and financial decisions. Therefore, where decisions are about to be taken on future leases, for example, the potential impact of IFRS will need to be considered.

Resources

The resource implications of the transition to IFRS are potentially significant. Current, material transactions will need to be reviewed in detail to assess the impact of IFRS. In many instances, transactions may not need to be accounted for differently under IFRS, but sufficient analysis will need to be undertaken to provide the supporting evidence for this.

Figure 1
Managing the transition



Source: Audit Commission

Senior management will need to consider whether there are sufficient existing resources and skills available, at the required times, within the authority to achieve a timely and accurate restatement. If not, decisions will need to be taken on whether resource gaps can be met through training or whether there is a need to bring in additional resources. This may particularly be the case in relation to complex transactions such as private finance initiative (PFI) and leasing, where authorities have previously brought in external financial advice. That same support may be needed to reassess those transactions under the requirements of IFRS. Other specialists, such as valuers, may also need to be engaged. Where external support is brought in, authorities will also need to consider how knowledge is retained in house in the longer term.

Data requirements

IFRS imposes significant additional reporting and disclosure requirements. To meet these, authorities will need to collect and collate additional or new data that is currently not readily available. Where that is the case, clear decisions will need to be taken on how that additional data is to be captured. In some instances, this may require changes to existing systems or even the development of new systems. Not all of those systems will be under the control of the finance department. Therefore, there is a need to ensure that all departments that hold, or would be required to generate, information needed under IFRS are aware of the requirements and have signed up to ensure that information is available.

When considering data requirements and collection, it should not be forgotten that information for the restatement will be required from 1 April 2009. Therefore, if authorities are able to identify their data requirements quickly, the opportunity exists to capture that information as part of the preparation of the 2008/09 statements, rather than having to capture it retrospectively at some point in the future.

The Commission believes that the audit committee, or equivalent, should be sufficiently aware of the requirements of IFRS to ensure that the transition project is given appropriate corporate priority. Therefore, when considering IFRS training needs, authorities should also consider the needs of members and senior officers.

The impact of the standards

The body of international standards comprises 29 international accounting standards (IAS), eight IFRS and, to date, 28 International Financial Reporting Interpretation Committee (IFRIC) and Standards Interpretation Committee interpretation notes. An analysis of these pronouncements compared to the current UK standards suggests that, in many cases, the two are comparable. This is not surprising as, since the introduction of *FRS 12: Provisions, Contingent Liabilities and Contingent Assets* in the UK, the standard setters in the UK have been committed to a programme of global harmonisation and have therefore based UK financial reporting standards (FRS) as closely as possible on the equivalent international standards. Nowhere is that more apparent than in the application of the financial instrument standards, FRS 25, 26 and 29 in the Code of Practice on Local Authority Accounting in the United Kingdom (SORP). The recognition of those standards in the SORP since 2007 means that local government is already IFRS compliant in those areas.

From our analysis, we believe that the most significant changes will be in the following areas:

- PFI;
- leases;
- property, plant and equipment – formerly fixed assets;
- employee benefits; and
- disclosures.

Clearly, the standards relevant to these areas may still be subject to adaptation and interpretation by CIPFA/LASAAC.

PFI

There is not an international standard that directly addresses PFI accounting. *IFRIC 12: Service Concession Arrangements* looks at such arrangements from the perspective of the private sector service provider. While the IFRIC does not specifically address PFI accounting, the circumstances it addresses are analogous to those found in a PFI scheme. The IFRIC states that, where the service provider does not control the asset, that asset will not appear on the service provider's balance sheet.

For government departments and the NHS, the Treasury has adopted a mirror image of the above accounting treatment. Therefore, if the public sector controls the assets within a PFI scheme, those assets should be recognised on the public sector balance sheet. The IFRIC defines two control tests, both of which must be met:

- the public sector grantor controls or regulates what services the operator must provide with the asset, to whom and at what price; and
- the public sector grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

In most PFI schemes we have seen, both those control tests are met and we would, therefore, expect to see most PFI assets appearing on the public sector balance sheet.

CIPFA/LASAAC has indicated that it will follow the Treasury line on the adoption of an approach based on IFRIC 12. The invitation to comment on the 2009 SORP also proposes early adoption, although further discussion will be required to consider exactly how authorities would account on that basis under UK GAAP.

Authorities will need to review their schemes and consider whether the assets are being accounted for correctly. Re-classification of PFI assets will potentially have significant financial implications for individual authorities as assets coming on to the balance sheet will, for example, affect prudential ratios.

Leases

The move to IFRS creates two issues in respect of leases – the breadth of the definition covered by the leasing standard and the way in which finance leases are identified.

IAS 17: Leases and *IFRIC 4: Determining Whether an Arrangement Contains a Lease* introduce some significant changes in lease accounting. IFRIC 4 states that an arrangement is, or contains, a lease when:

- the fulfilment of the arrangement depends on a specific asset or assets; and
- the arrangement conveys a right to use that asset.

This definition is wider than that currently used under *SSAP 21: Leases and Hire Purchase Contracts*. Authorities will need to review any arrangements they may have involving the use of an asset, such as a licence, a partnership agreement or a long-term contract, to consider whether they contain a lease.

Where an authority leases land and buildings, IAS 17 requires that the land and buildings elements are considered separately, with the land element usually treated as an operating lease because of its indefinite economic life. The building element would then be tested separately for a finance lease. This is different to SSAP 21 where land and buildings are treated as a single asset that would normally be classified as an operating lease.

The determinants of a finance lease under IAS 17 are not dissimilar to SSAP 21, and are based on a consideration of the transfer of risks and rewards. However, while IAS 17 still requires consideration of whether the lease term represents a major part of the economic life of the asset, there is no equivalent of the 90 per cent test under SSAP 21. Therefore, the consideration of the consumption of the economic life of the asset will be much more subjective than under SSAP 21, with a greater focus on risks and rewards.

In the Commission's view, these factors taken together will result under IFRS in an increased number of arrangements being classified as leases, with a greater number of those arrangements being recognised as finance leases, bringing more assets onto the authority's balance sheet. In any event, authorities will need to review and reassess all of their arrangements to ensure the correct accounting treatment under IFRS.

Property, plant and equipment

IAS 16: Property, Plant and Equipment is broadly similar to FRS 15, so we do not envisage wholesale changes. However, it does introduce different requirements for the basis of asset valuations, which may have implications for the arrangements authorities currently have in place.

IAS 16 states that 'each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately'. This is stronger than the equivalent requirement under FRS 15.

Thus, if an authority owns a building with lifts and a boiler system that have a significant cost and significantly different economic lives to the rest of the fabric of the building, those components should be depreciated separately from the rest of the building. This will require asset registers to record separately those significant parts of an asset.

Authorities with significant investment assets will also need to consider whether they are accounting for those assets correctly under IFRS as *IAS 40: Investment Property* introduces different accounting requirements to UK GAAP.

Employee benefits

In most respects, *IAS 19: Employee Benefits* will have only little impact. It is similar in scope to FRS 17 and, therefore, introduces only minimal changes in accounting for pensions. However, it does introduce the specific requirement that organisations must accrue for staff benefits, including paid leave, that are not taken at the balance sheet date. We believe that this may have a significant impact.

Where an authority has a leave year-end for all staff that coincides with its balance sheet date and the carry-forward of leave is not allowed, no accrual will be required as there will be no untaken leave entitlement. For authorities with any other leave year arrangements, an assessment of the need for an accrual will need to be made. Below is an example of the calculation needed:

> The organisation has 1,000 staff with an average annual salary of £25,000. All staff have a leave year-end of 31 March, coinciding with the balance sheet date. On average, staff carry forward three days leave. The working year is 260 days.
>
> Accrual on first time adoption = 3/260 x £25,000 x 1,000 = £288,000 (1.2 per cent of the total salary bill).

Where the leave year-end does not coincide with the balance sheet date, an assessment will also need to be made of the pro-rated untaken leave for which an accrual is required.

The required accrual may not be material to the accounts. However, authorities will need to undertake sufficient analysis, on a sample basis if necessary, to be able to demonstrate this. This will require a strong and reliable system for recording annual leave and may require a significant resource input.

For many authorities, once the accrual on first time adoption has been calculated and recognised in the restated accounts, the ongoing in-year impact on the income statement is likely to be immaterial because leave patterns will not vary significantly from one year to another. However, this may not be the case for education authorities which have not adopted a fixed date for school Easter holidays. With national terms and conditions for teachers entitling them to be paid to the end of the holiday following the term worked, there may be a material accrual at 31 March to recognise teachers' pay entitlement to the end of the Easter holiday. For authorities where the Easter holiday varies with the incidence of Easter, that accrual could vary significantly between years.

Disclosures

IFRS contains a significant number of additional disclosure requirements over and above those required by UK standards. Until the Code is finalised, it is difficult to assess the full impact of these additional disclosures. However, if adopted, they may require the capture of new and different data and, again, authorities will need to consider how that will be achieved. We will publish a further briefing once that is clearer.

Conclusion

The transition to IFRS is very much a current issue for authorities and it is important that those bodies identify and plan for what they need to do as soon as possible. The move to IFRS does not mean wholesale change, but where changes do occur, a significant amount of work will be needed to assess the impact on the accounts. That work needs to begin now if authorities are to achieve the transition timetable.

For further information on the work of the Commission please contact:
Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ
Telephone: 0844 798 1212 Fax: 0844 798 2945 Textphone (minicom): 0844 798 2946
www.audit-commission.gov.uk

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

15 JUNE 2009

REPORT OF THE CHIEF EXECUTIVE

Report prepared by David Edwards

1. AUDIT COMMISSION'S AUDIT AND INSPECTION FEE LETTERS

1.1 Issue for Decision

1.1.1 To receive and consider the Audit Commission's Fee Letters for 2009/10.

1.2 Recommendation of the Chief Executive

1.2.1 That the Audit Committee receives and considers the Audit Commission's Fee Letters for 2009/10.

1.3 Reasons for Recommendation

1.3.1 The Audit Commission has changed its approach to its initial planning work and the previous Plan format has now been replaced by Fee Letters, with a more detailed accounts audit plan being prepared on completion of the 2008/09 audit. Attached at Appendix A are the Fee Letters for 2009/10 as submitted by the Council's External Auditors. There are separate letters for the Annual Audit Fee 2009/10 and the Annual Inspection Fee 2009/10. The Letters include details of the work that the auditors will be carrying out during the year. The work plan has been the subject of informal discussions with Senior Officers and the Leader. The work includes a continuation of the auditor's assessments of Use of Resources and Value for Money and the new assessment in respect of Comprehensive Area Assessment.

1.3.2 The Letters detail the outputs to be provided from the work of the External Auditors and the audit and inspection fee required for the provision of this work. The proposed fee can be accommodated within the Council's budget. However, Members will note that the total audit and inspection fee has increased by 4.2%.

1.3.3 It is anticipated that the External Auditors will present their work plan and Letters and be available to answer questions and receive comments from Members.

1.3.4 The proposed work plan and Fees Letters will also be considered by Cabinet at its meeting on 29 June 2009.

1.4 Alternative Action and why not Recommended

1.4.1 The Fees Letters are produced under the statutory requirements governing External Audit and no alternatives are considered. Members may request further work to be done by the External Auditors, at a cost, but this is not recommended for 2009/10.

1.5 Impact on Corporate Objectives

1.5.1 The Fees Letters cover the corporate wellbeing of the Authority and are an integral part of the Corporate Governance arrangements of the Authority.

1.6 Risk Management

1.6.1 The work of the External Auditors is an essential element of the Corporate Governance arrangement of the Authority. The elements of the arrangements audited are subject to individual risk assessments.

1.7 Other Implications

1.7.1

1.	Financial	X
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.7.2 The financial implications are as shown in the Fees Letters.

1.8 Background Documents

1.8.1 None

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision?	Yes	☐	No	X

If yes, when did it appear in the Forward Plan? ________________________

Is this an Urgent Key Decision?	Yes	☐	No	X

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

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Our reference South/MA202/EH

27 April 2009

David Petford
Chief Executive
Maidstone Borough Council
Maidstone House
King Street
Maidstone
Kent ME15 6JQ

Direct line 0844 798 2648
Mobile 07779 343 666
Email e-hill@audit-commission.gov.uk

Dear David

Annual audit fee 2009/10

Further to our discussions, I am writing to confirm the audit work that we propose to undertake for the 2009/10 financial year at Maidstone Borough Council. The fee:

- is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2009/10; and
- reflects only the audit element of our work, excluding any inspection and assessment fees. Your Comprehensive Area Assessment Lead, Claire Bryce-Smith, will be writing to you separately on these fees.

As I have not yet completed my audit for 2008/09 the audit planning process for 2009/10, including the risk assessment will continue as the year progresses and fees will be reviewed and updated as necessary.

The total indicative fee for the audit for 2009/10 is for £109,020 (excluding VAT) which compares to the planned fee of £106,818 for 2008/09. A summary of this is shown in the table below.

Audit fee

Audit area	Planned fee 2009/10 (£)	Planned fee 2008/09 (£)
Financial statements	75,557	72,423
Use of Resources/VFM Conclusion	31,641	33,355
WGA	1,822	1,040
Total audit fee	**109,020**	**106,818**
Certification of claims and returns	22,000	22,000

The Audit Commission has published its work programme and scales of fees 2009/10. The scale fee for Maidstone Borough Council is £115,894. The fee proposed for 2009/10 is 5.9 per cent below the scale fee.

In setting the fee at this level, I have assumed that the general level of risk in relation to the audit of the financial statements is not significantly different from that identified in 2008/09. A separate plan for the audit of the financial statements will be issued in December 2009. This will detail the risks identified, planned audit procedures and any changes in fee. The quoted fee for grant certification work is an estimate only and will be charged at published daily rates. If I need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with the Chief Finance Officer and then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

My use of resources assessments will be based upon the evidence from three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. However, I have identified some early risks in relation to this work. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My initial risk assessment for value for money audit work is shown in the table below.

Table 1 Initial risks in relation to value for money conclusion

Risk	Planned work	Timing of work
Working in partnership to deliver good community engagement is crucial to the delivery of many of the targets and aspirations contained in the Kent Local Area Agreement 2 (LAA2). This is reflected in Local Strategic Partnerships (LSPs) and associated health and well being partnerships. The success and effectiveness of community engagement varies across the country, because joint working is complex and presents unique challenges which must be	We will survey those public bodies which contribute to the Kent LAA2 to seek evidence about the effectiveness of the work they are undertaking to ensure community engagement. We will report the results to the Kent LAA delivery board and to individual audited bodies.	To be confirmed

overcome if improvement is to be achieved.		
The Council is considering a number of arrangements with other councils for the provision of various shared services. This can offer significant economies of scale but service performance, business continuity and contractual risks will need managing.	We will monitor the Council's progress in managing the associated risks as part of our continuous audit work.	April 2009 - August 2010.

I will issue a separate project specification for the community engagement review before beginning the work.

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work any work requested by you that the Audit Commission may agree to undertake using its advice and assistance powers. Each piece of work would be separately negotiated and a detailed project specification agreed with you.

The key members of the audit team for the 2009/10 are:

Audit Manager	Steve Golding	07769 881392
Team Leader	Chris Bacon	07748 933723

I am committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs (n-childs@audit-commission.gov.uk).

Yours sincerely

Emily Hill
Appointed Auditor

cc Derek Williamson, Chief Finance Officer
David Edwards, Director of Change & Environmental Services
John Horne, Chair of the Audit Committee

Appendix 1 – Planned outputs

Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 2 Planned outputs

Planned output	Indicative date
Opinion audit plan	December 2009
Interim audit memorandum (if appropriate, to the Chief Finance Officer)	May/June 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements and value for money conclusion	September 2010
WGA auditor's report	October 2010
Use of Resources report	October 2010
Final accounts memorandum (to the Chief Finance Officer)	October/November 2010
Housing and council tax benefits report giving key findings from our associated grant certification work (if appropriate, to the Chief Finance Officer)	November 2010
Annual Audit Letter	November 2010
Community engagement report	To be confirmed

29 April 2009

David Petford
Chief Executive
Maidstone Borough Council
Maidstone House
King Street
MAIDSTONE
Kent ME15 6JQ

Direct line 0844 798 2325
Mobile 07818 427477
Email c-bryce-smith@audit-commission.gov.uk

Dear David

Annual inspection fee 2009/10

I am writing to confirm the assessment and inspection work that we propose to undertake for the 2009/10 financial year at Maidstone Borough Council. The inspection fee:

- is based on the risk-based approach to inspection planning as set out in the Comprehensive Area Assessment (CAA) framework and associated guidance; and
- reflects only the Audit Commission's inspection work, excluding any audit fees. Your appointed auditor will be writing to you separately on fees for audit work.

CAA will deliver a more proportionate and risk based approach to inspection, targeting only high risk services and outcomes for inspection where alternative improvement activity is not appropriate. The inspection plan will be reviewed and updated as necessary.

The total indicative fee for inspection for 2009/10 is £9,152 and is shown in the table below. The inspection fee has been set in accordance with the Audit Commission's work programme and scales of fees 2009/10.

Assessment and inspection work plan and fee

Assessment / inspection activity	Planned fee for 2009/10
Area assessment of local partnership	n/a (CLG grant funded)
Managing performance theme of organisational assessment	£9,152
Total inspection fee	£9,152

If I need to make any significant amendments to the inspection plan and fee during the course of the year, I will first discuss this with you and then confirm in writing outlining the reasons for the change, including the proposed scope for the work.

The above fee excludes any work you requested and the Commission has agreed to undertake using its advice and assistance powers.

If you have any questions regarding this letter, please contact me in the first instance. Alternatively you may wish to contact the South East Head of Operations, Neil Childs.

Yours sincerely

Claire Bryce-Smith
Comprehensive Area Assessment Lead

cc Derek Williamson, Chief Finance Officer

MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

15 June 2009

REPORT OF THE HEAD OF INTERNAL AUDIT AND RISK STRATEGY

Report prepared by Brian Parsons

1. Annual Review of the Effectiveness of the System of Internal Audit

1.1 Issue for Decision

1.1.1 The Accounts and Audit (Amendment) Regulations 2006 state at paragraph 6 (3) that 'the relevant body shall at least once in each year conduct a review of the effectiveness of its system of internal audit'. The regulations go on to state that the findings of this review be considered by a committee of the relevant body as part of the wider consideration of an organisation's system of internal control.

1.1.2 In order to meet the statutory requirement, the Audit Committee needs to consider the effectiveness of the system of internal audit.

1.1.3 In the opinion of the Head of Internal Audit & Risk Strategy, sufficient evidence of effectiveness is contained within this report.

1.1.4 Members need to conclude whether the system of internal audit at Maidstone is effective.

1.2 Recommendation of the Head of Internal Audit & Risk Strategy

1.2.1 That the Audit Committee reviews the evidence contained within this report and concludes whether it is satisfied with the effectiveness of the system of internal audit.

1.3 Reasons for Recommendation

1.3.1 The Accounts and Audit (Amendment) Regulations 2006 state at paragraph 6 (3) that 'the relevant body shall at least once in each year conduct a review of the effectiveness of its system of internal audit'. The regulations go on to state that the findings of this review be considered by a committee of the relevant body as part of the wider consideration of an organisation's system of internal control.

1.3.2 This report provides the Audit Committee with the necessary information to conclude whether it is satisfied with the effectiveness of the Council's system of internal audit.

1.3.3 To assist the consideration, the report includes appendices showing the level of 'Customer Satisfaction' with the internal audit service. The level of satisfaction is shown as being between 'good' and 'excellent'. The appendices also includes a chart which shows the movements in control assurance following the audit, whereby services are able to demonstrate an improvement in the level of internal control after recommendations have been implemented.

1.4 Background

1.4.1 Significant amendments were made to the Accounts and Audit Regulations in 2006. One of the intentions of the amendments was to strengthen governance and accountability and this included a requirement to 'carry out and consider the findings of a review of the effectiveness of internal audit'.

1.4.2 The Department for Communities and Local Government (DCLG) provided some, limited, guidance on the Regulations. Subsequently CIPFA provided more detailed guidance, the most recent being contained in the 'Review of Effectiveness of the System of Internal Audit – Findings of the review conducted by CIPFA, August 2007'.

1.4.3 The CIPFA guidance has been used to review the effectiveness of the system of internal audit at Maidstone.

1.4.4 The guidance suggests that a review of internal audit is not solely to do with the internal audit section.

1.5 Purpose of the review

1.5.1 The review is primarily about effectiveness, not process. In essence the need for the review is to ensure that reliance can be placed firstly (and principally) on the opinion in the annual report of the Head of Internal Audit and secondly on the other elements that contribute to the overall 'system' of internal audit within the authority.

1.5.2 The system of internal audit includes the role of the audit committee. In addition, the system of internal audit can include the management processes of checking, reconciliations, supervision and controls; as well as the corporate control functions such as legal, financial, health and safety and human resources services.

1.5.3 It is considered that assurance on these 'other elements' can largely be drawn from the various reports (including those from the Audit Commission) which have been provided to Cabinet and to the Audit Committee throughout the year. In particular, assurance on the effectiveness of the internal audit system is provided in the Internal Audit 2008/09 Annual Review and the Annual Governance Statement for 2008/09, which the Committee considered at its meeting on the 1 June 2009. Further assurance is provided through the Annual Accounts which Members will be considering later on the agenda for tonight's meeting.

1.5.4 This report principally considers internal audit in the context of the Internal Audit Service as managed by the Head of Internal Audit & Risk Strategy.

1.6 Who should carry out the review?

1.6.1 The Accounts and Audit Regulations require either the body itself or a committee of the body to review the system of internal audit. The guidance suggests that, for those authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review as this committee already has oversight of internal audit.

1.7 Making the assessment

1.7.1 The various guidance from CIPFA sets out a number of practical and (in most cases) measurable elements that can be used in the review of the effectiveness of internal audit, including:

- An assessment of compliance with the Code of Practice for Internal Audit in the United Kingdom
- Performance against key performance indicators
- Indicators about the value placed on the service by the authority
- The extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls
- Analysis of customer feedback questionnaires from managers and the results of any corporate surveys
- The external auditor's use of resources assessment on internal control.
- The effectiveness of the Audit Committee.

1.7.2 In addition to the elements set out by CIPFA, at a local level the Internal Audit Team has created a process to allow the effectiveness of internal audit to be demonstrated by focusing on outcomes – what effect does the work of internal audit have on the Authority's control environment. This is measured by using the assurance assessments that are made for each audit; and the subsequent effect of the implementation of the audit recommendations on the assurance level. The improvements in control are identified and quantified at the time of the follow-up. Several charts are shown at Appendix A which are intended to illustrate the improvements in control that occur as a result of Internal Audit work.

1.7.3 A detailed review of each of the various elements is set out below in order to allow Members to draw conclusions about each of them.

1.8 <u>Assessment of compliance with the Code of Practice</u>

1.8.1 Compliance with the Code of Practice is a statutory requirement, with the Code representing the 'standards' for internal audit in local government. The Code is comprehensive and includes sections on Scope, Independence, Ethics, Audit Committee, Relationships, Staffing and Training, Strategy and Planning, Undertaking Audit Work, Due Professional Care, Reporting, and Performance, Quality and Effectiveness.

1.8.2 The external auditors (Audit Commission) carried out their triennial review of Internal Audit during 2008/09. The result of the review was reported to the Audit Committee meeting on the 17 February 2009. The report includes the following statements:

As all of the eleven standards have been met, in our opinion, Internal Audit is complying with the professional and statutory duties set out in the CIPFA (Code).

Internal Audit have been very pro-active in ensuring that they are compliant with the new CIPFA code, completing a self-assessment and engaging with another Council to facilitate a peer review of the arrangements.

1.8.3 Internal Audit has therefore been assessed as being fully compliant with all of the eleven standards, a position that the Audit Commission has described as 'commendable'. Compliance with the Standards allows the external auditors to place reliance on the work of Internal Audit.

1.9 Performance against key performance indicators

1.9.1 Internal Audit, like all of the Council's services, is required to make use of performance indicators. The indicators are 'local' and are recorded on the Council's corporate performance management system, Reach the Summit. During 2008/09 the Internal Audit Service had three performance indicators which are measured and reported throughout the year. The targets are:

- Completion of the annual internal audit plan
- Percentage of chargeable time (i.e. time spent on planned audit work - the target is 75%).
- Achievement of the Council's corporate customer care targets, for example in respect of telephone answering.

In practice, during 2008/09 the internal audit function achieved 90% of the internal audit plan and on a month by month basis frequently met the other two targets, with an average 79% of chargeable time.

1.9.2 It is considered that performance against key performance indicators provides a positive assurance of the adequacy and effectiveness of Internal Audit.

1.10 Indicators about the value placed on the service by the authority

1.10.1 This is a difficult indicator to evidence as there are no specific assessments by the authority of the *value* which it places on the Internal Audit service. However, based on the comments of Members, Management Team and Heads of Service (as evidenced in the annual client survey), it is apparent that the authority places a high value on the Internal Audit service.

1.11 The extent to which reliance is placed on internal audit by the external auditor in relation to the key financial system controls

1.11.1 The external auditors were able to place reliance on the work of internal audit during 2008/09. Internal audit met all of the expectations of the external auditors and therefore it was not necessary for the external auditors to carry out any additional, unplanned, work.

1.12 Analysis of customer feedback questionnaire from managers and the results of any corporate surveys

1.12.1 An annual customer survey has been carried out by Internal Audit for a number of years. The survey questionnaire is quite detailed and is based around a questionnaire that was originally designed by CIPFA for use in their annual benchmarking exercise.

1.12.2 The customer survey questionnaire was provided to all Heads of Service and senior Service Managers as well as the Directors and the Chief Executive in January 2009. The returned questionnaires have been analyzed and the results are shown at Appendix A.

1.12.3 The analysis shows a high level of satisfaction with the Internal Audit Service with an overall rating, at section seven, of '3.53' out of a maximum score of four, which is between 'good' and 'excellent'. The vast majority of the individual questions are also answered very positively. The levels of satisfaction which have been reported in previous years are broadly consistent, which suggests that the standards of service are being consistently maintained at a high level.

1.12.4 The satisfaction of the senior mangers that are, in effect, paying for the Audit Service through their budgets, is a very positive indicator of the effectiveness of the Internal Audit Service.

1.12.5 In addition to the annual survey, a short questionnaire is sent with every Internal Audit report. These questionnaires are directed to the unit manager or team leader who had most contact with the auditor during the audit. This provides an opportunity to assess the level of satisfaction with each project at 'ground level' and assists the quality control process. A summary of the responses to the 'project' questionnaires is shown at Appendix B.

1.12.6 The 'project' summary shows the responses against the five questions that form the questionnaire. The scores confirm satisfaction as being between 'good' and 'excellent'.

1.13 <u>The external auditor's use of resources assessment on internal control</u>

1.13.1 Although this is a recommended indicator within the initial guidance from CIPFA, it has to be borne in mind that internal audit is only one of several elements that form the use of resources assessment on internal control. The most recent external auditor assessment of Internal Control was that the Council scored 3 out of 4; meaning that internal control is 'consistently above minimum requirements – performing well'.

1.14 <u>The effectiveness of the Audit Committee</u>

1.14.1 The Audit Committee first met in May 2007 and had now considered two full cycles of reports. At its meeting on 19 May 2008, the Committee undertook a self assessment review of effectiveness against the best practice CIPFA guidance. The outcome was positive, with only one area requiring attention.

1.14.2 During 2008/09, the order in which reports are received by Audit Committee and Cabinet was revised so that, where appropriate, reports come first to the Audit Committee so that the Committee can comment or request action by the Cabinet. This change has added to the effectiveness of the Audit Committee.

1.14.3 An 'options for further improvement' report was considered by the Audit Committee meeting on the 30 March 2009. A number of actions were agreed in order to add still further to the effectiveness of the Committee. These actions will be implemented over the coming months.

1.15 Control assurance statements

1.15.1 Internal Audit use 'assurance levels' or assurance statements to provide the overall 'audit opinion' for the service or area which has been reviewed. The use of an assurance level is consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. There are four assurance levels, as detailed in Appendix D. This allows a structured and balanced view to be taken of the adequacy of internal control in the area concerned.

1.15.2 The assessment of the assurance level allows the adequacy of control to be quantified both at an individual level and using the assessments cumulatively and collectively, at a corporate level.

1.15.3 The use of assurance statements has become a prime part of the effectiveness assessment; in particular allowing improvements in control to be demonstrated at the time of the follow-up. An analysis, in the form of two bar charts at Appendix C shows a trend of control improvement over a number of years and specifically the improvement that occurs as a result of Internal Audit work. This helps to confirm the effectiveness of the Internal Audit process.

1.16 Alternative Action and why not Recommended

1.16.1 In order to meet the statutory requirement, those charged with governance must review the evidence of effectiveness in order to conclude whether the system of internal audit is effective. Failure to do so would result in criticism from the external auditor.

1.17 Impact on Corporate Objectives

1.17.1 The Council has set high standards for governance. The effectiveness of the system of internal audit is an important element of the governance arrangements.

1.18 Risk Management

1.18.1 A failure to review the effectiveness of the system of internal audit would be a breach of a statutory requirement. A negative assessment of the effectiveness of internal audit would undermine the assurance that internal audit provides to the Annual Governance Statement.

1.19 Other Implications

1.19.1

1.	Financial	X
2.	Staffing	
3.	Legal	X
4.	Social Inclusion	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.19.2 A lack of effectiveness of the system of internal audit would bring into question the adequacy of internal control within the organization. This would have broad implication but would most specifically reduce assurance relating to financial systems and controls.

1.19.3 There is a statutory requirement to carry out an annual review of the effectiveness of the internal audit system.

1.20 Conclusions

1.20.1 The Accounts and Audit Regulations amendments in 2006 require that the appropriate committee review whether internal audit is effective. It is considered that this report contains evidence that internal audit is effective. However, it is for Members to decide whether this is the case.

1.21 Background Documents

1.21.1 Accounts and Audit regulations – Guidance form the Department of Communities and Local Government.

1.21.2 CIPFA Finance Advisory Network – Guidance on the Review of the Effectiveness of the System of Internal Audit.

1.21.3 CIPFA Technical Information Service – Review of Effectiveness of the System of Internal Audit – Findings of the review conducted by CIPFA, August 2007

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes [ ] No [X]

If yes, when did it appear in the Forward Plan? ________________________

Is this an Urgent Key Decision? Yes [ ] No [X]

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

Appendix A

Internal Audit Customer Satisfaction Survey 2008/09

1 Overall view of Internal Audit

Overall View of the Internal Audit Service:

		Score	
1.1	Do you consider that Internal Audit has improved over the last year	=	**Stayed the same**
1.2	Are you satisfied with the service that you receive from Internal Audit	=	**Satisfied**

Performance Rating
4 Excellent
3 Good
2 Weak
1 Poor

2 Audit Services

Internal Audit undertakes work in a number of different areas. In respect of the following areas, how well do you consider that we currently perform?

		Score
2.1	Consultancy (including advice and guidance on policies/procedures)	3.14
2.2	Review of compliance with policies/procedures/ Legislation	3.36

2.3	Internal Control Reviews	3.57
2.4	Investigations (including fraud and irregularity)	3.56

3 Audit Staff

Based on your contact with internal audit staff in the past year how well do you rate them in the following areas?

		Score
3.1	Professionalism (for instance being unbiased and objective)	3.67
3.2	Positive Attitude	3.53
3.3	Ability to establish positive rapport with your staff	3.53
3.4	Knowledge of the operation of your service or system	3.20

4 Conduct of Audits

Based on your experience, how well does Internal Audit plan to carry out individual audits?

		Score
4.1	Timing of audits is appropriate	3.27
4.2	Opportunity is given to comment on the audit brief and sugges changes	3.36

4.3	The audit objectives and approach are made clear prior to commencement of the audit	3.60
4.4	Audit focus on significant risks	3.27
4.5	Service concerns and perspectives are adequately considered during the review	3.33
4.6	Auditors take care to minimise disruption to operations	3.40
4.7	Auditors requests for information is reasonable	3.40
4.8	Auditors discuss issues with managers as they arise	3.40

5 Audit Reporting

The final product of an audit report. How do you rate our reporting process?

		Score
5.1	Reports are well written and easily understood	3.36
5.2	Reports are factually correct	3.36
5.3	Reports are issued promptly	3.43
5.4	Conclusions are appropriate and supported by adequate evidence	3.36
5.5	Recommendations are constructive, practical and cost effective	3.43

5.6	Internal Audit follow-up their recommendations and let me know that action has been taken by my line manager	3.50

6 Customer Service

As customers of Internal Audit how do you rate us in the following areas?

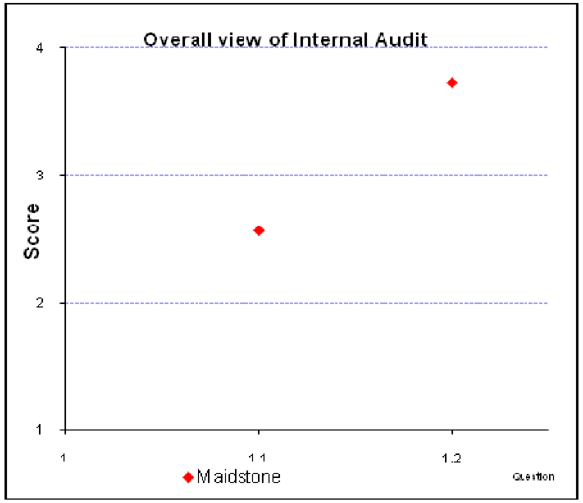
		Score
6.1	Internal Audit seek to foster good working relationships	3.60
6.2	Internal Audit are approachable	3.73
6.3	Internal Audit are committed to assisting me to make improvements to controls within my service/system	3.60
6.4	The role, responsibilities and management arrangements for Internal Audit are clear	3.43

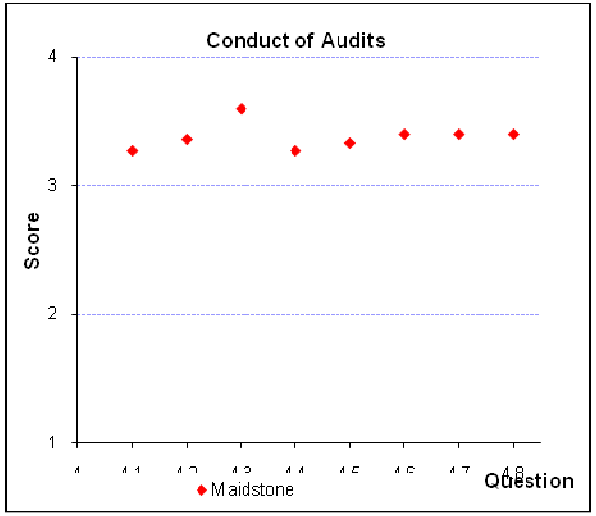
7 Overall Rating of Internal Audit

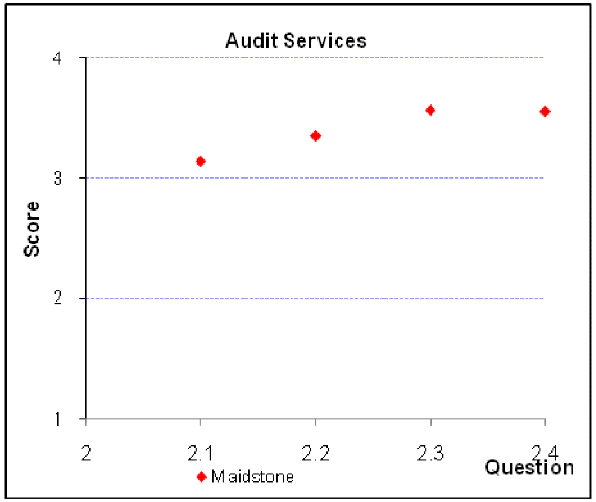
7.1	Overall rating of Internal Audit	3.53

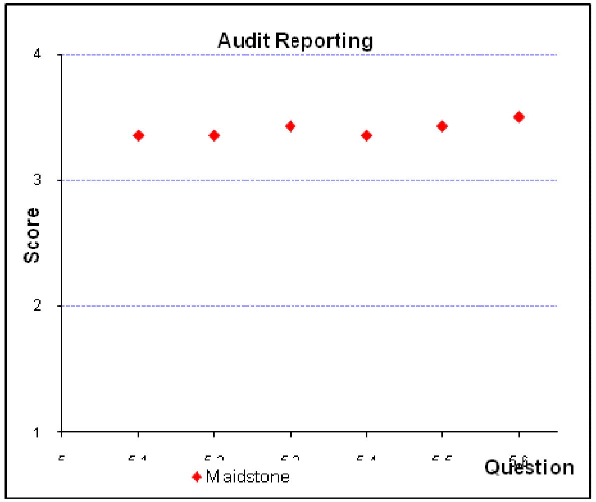
Maidstone Internal Audit Performance Charts 2008/09

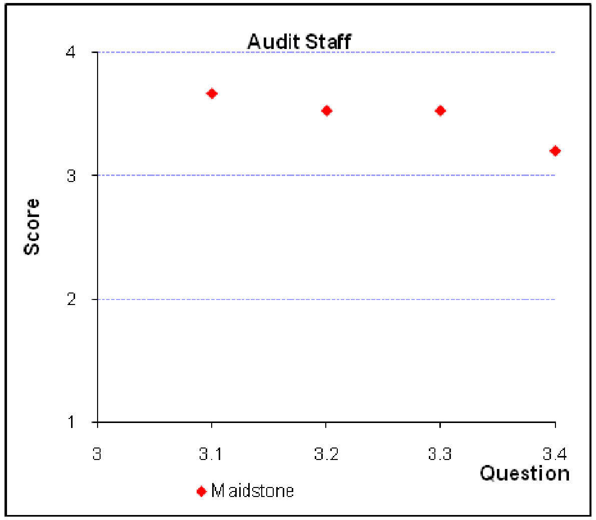
These charts show the average performance scores obtained by the 2008 customer survey. The red diamond is the average score for Maidstone Borough Council Internal Audit for 2008.

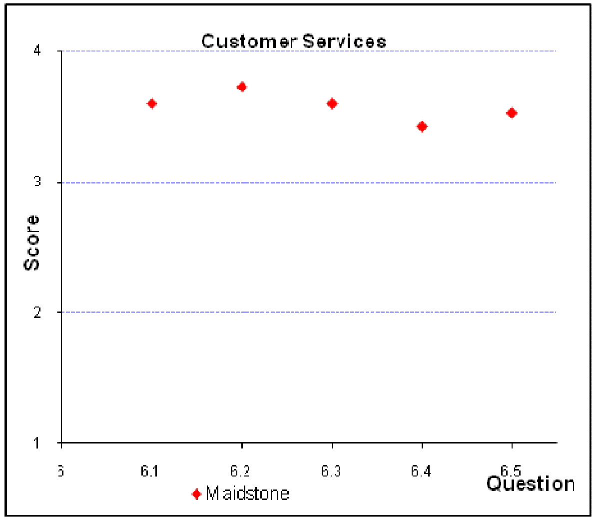





Audit Services
Score
4
3
2
1
2
2.1
2.2
2.3
2.4
Question
Maidstone


Audit Reporting
Score
4
3
2
1
Question
Maidstone


Audit Staff
Score
4
3
2
1
3
3.1
3.2
3.3
3.4
Question
Maidstone


Customer Services
Score
4
3
2
1
6.1
6.2
6.3
6.4
6.5
Question
Maidstone

Appendix B

Result of the Individual Performance Surveys for Internal Audit 2008/09

The scores represent the overall view of the Internal Audit Service based on the results of 19 completed audit report questionnaires.

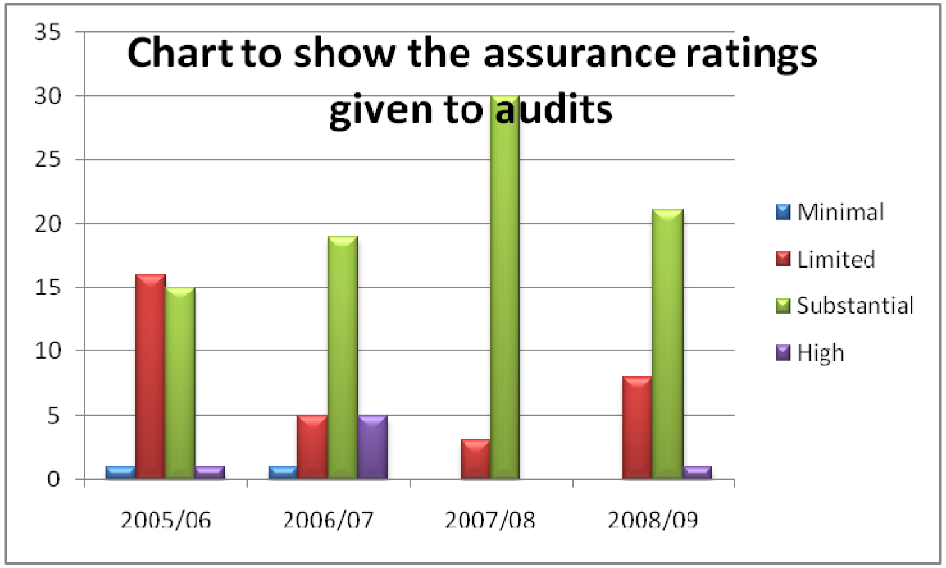
Overall view of Internal Audit

		Score 2008/09
1.1	Adequate notice of the audit was provided	4.41
1.2	The content of the audit was made clear	4.53
1.3	The auditor worked well with staff during the audit	4.63
1.4	The main issues arising from the audit were adequately explained	4.24
1.5	The report is will written and easily understood	4.47

Performance Rating
5 Excellent
4 Good
3 Less than Adequate
2 Weak
1 Poor

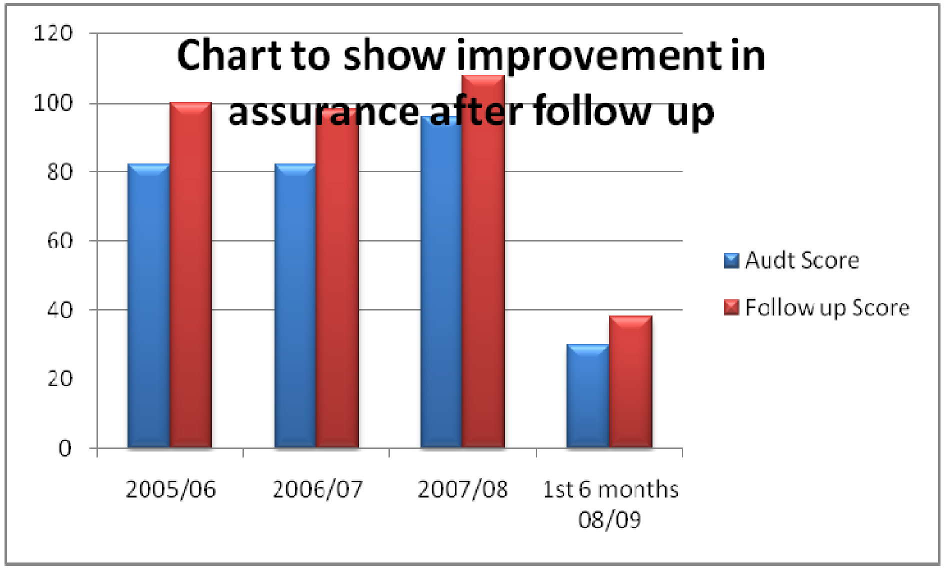
Appendix C

Improvements in Internal Control resulting from Internal Audit work



This chart (above) illustrates that, although the average number audit reports with a control assurance assessment has remained at 31 each year, there has been a continued improvement in the proportion of audits where control has been considered to be of an acceptable standard (substantial or high). The peak increase in performance for 2007/8 is considered to have been an exception. This is attributed to the higher than average number of audits being carried out within *risk mature*, finance or compliance-based, subject areas.

It should be noted that audit expectation of management control was increased in 2008/9, requiring a higher level of management control to be in place for services to achieve either substantial or high level of assurance – In effect, the bar was raised. This, together with audit activity covering a number of services which had not been exposed to audit before, explains the 'slowdown' in the number of audits awarded a substantial or high level of assurance.



This chart (above) illustrates the effect of the audit follow-up audit process on the control environment. Years 05/6, 06/7 and 8/9 (first half year) demonstrates a greater than 20% increase in assurance assessment from the audit and follow up process.

NB: It is recognised that a reduced opportunity is available for improvement where the control is already at significant assurance – explaining the lower (13%) improvement during the year

Appendix D

Definitions of Assurance Levels

Our opinion on the adequacy and effectiveness of controls for an audited activity is shown as an ***assurance level*** within four categories. The use of an ***assurance level*** is more consistent with the requirement for managers (and Members) to consider the degree to which controls and processes can be relied upon to achieve the objectives of the reviewed activity. The assessment is largely based on the adequacy of the controls over risks but also includes consideration of the adequacy of controls that promote efficiency and value for money. The definitions of assurance levels are provided below:

Controls Assurance Level	**Summary description**	**Detailed definition**
Minimal	Urgent improvements in controls or in the application of controls are required	The authority and/or service is exposed to a significant risk that could lead to failure to achieve key authority/service objectives, major loss/error, fraud/impropriety or damage to reputation. This is because key controls do not exist with the absence of at least one critical control **or** there is evidence that there is significant non-compliance with key controls. The control arrangements are of a poor standard.
Limited	Improvements in controls or in the application of controls are required	The area/system is exposed to risks that could lead to failure to achieve the objectives of the area/system under review. This is because, key controls exist but they are not applied, or there is significant evidence that they are not applied consistently and effectively. The control arrangements are below an acceptable standard.
Substantial	Controls are in place but improvements would be beneficial	There is some limited exposure to risk which can be mitigated by achievable measures. Key or compensating controls exist but there may be some inconsistency in application. The control arrangements are of an acceptable standard.
High	Strong controls are in place and are complied with	The systems/area under review is not exposed to foreseeable risk, as key controls exist and are applied consistently and effectively. The control arrangements are of a high standard.

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

15 JUNE 2009

REPORT OF THE HEAD OF INTERNAL AUDIT & RISK STRATEGY

Report prepared by Brian Parsons

1. Compliance with International Auditing Standards (UK and Ireland)

1.1 Issue for Decision

1.1.1 To consider and agree the response to the letter from the Audit Commission's Appointed Auditor in relation to (a) how the Audit Committee exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council, (b) how the Audit Committee gain assurance that all relevant laws and regulations have been complied with.

1.2 Recommendation of the Head of Internal Audit & Risk Strategy

1.2.1 That Members consider and agree the contents of the letter to the Audit Commission's Appointed Auditor.

1.3 Reasons for Recommendation

1.3.1 In the context of the International Standards on Auditing (UK and Ireland) and their current work on the Council's accounts for 2008/09, the external auditors require an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council (ISA(UK&I)240. The external auditors also require to understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with (ISA(UK&I)250.

1.3.2 The Audit Committee is the body charged with governance.

1.3.3 The letter from the Audit Commission's Appointed Auditor is shown at Appendix A.

1.3.4 The draft response to the letter from the Chairman of the Audit Committee is shown at Appendix B. Members are asked to consider the letter and agree the response to the Appointed Auditor.

1.4 Alternative Action and why not Recommended

1.4.1 The external auditors require a statement from the Chair of the Audit Committee. There is no alternative action.

1.5 Impact on Corporate Objectives

1.5.1 The Council sets high standards for its governance arrangements and financial management. The assurances which are given to the Audit Commission should reflect those standards.

1.6 Risk Management

1.6.1 A failure to provide the Appointed Auditor with the necessary assurances could compromise the audit of the accounts for 2008/09.

1.7 Other Implications

1.7.1

1.	Financial	
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.8 Background Documents

1.8.1 None

NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED

Is this a Key Decision? Yes [ ] No [X]

If yes, when did it appear in the Forward Plan? ______________________

Is this an Urgent Key Decision? Yes [ ] No [X]

Reason for Urgency

[State why the decision is urgent and cannot wait until the next issue of the forward plan.]

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Our reference ISA(UK&I) requirements

30 March 2009

Direct line 0844 798 2638
Mobile 07779 343 666
Email e-hill@audit-commission.gov.uk

Councillor Horne
Audit Committee Chairman
Maidstone Borough Council
Maidstone House
King Street
Maidstone
Kent
ME15 6JQ

Dear Councillor Horne

Compliance with International Auditing Standards (UK and Ireland)

This is a request for your assistance as Chairman of the Audit Committee with our current work on the Council's accounts for 2008/09.

External auditors work to the framework of International Standards on Auditing (UK and Ireland) (ISA(UK&I)) which require ongoing communication between auditors and those charged with governance, in your case the Audit Committee, to ensure that there is a mutual understanding of the scope of the audit and for the two way exchange of information to assist the fulfilment of our respective responsibilities. One key area in which we require information from the Audit Committee is in the audit of the financial statements. The ISA(UK&I)s require us to seek the Audit Committee's views in some specific areas.

ISA(UK&I)240 requires us to obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control in the Council. Management's processes should include:

- undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
- identifying and responding to risks of fraud in the organisation;
- communication to employees of views on business practice and ethical behaviour; and
- communication to those charged with governance the processes for identifying and responding to fraud.

Audit Commission, 16 South Park, Sevenoaks, Kent, TN13 1AN
T 0844 798 1350 **F** 0844 798 1399 www.audit-commission.gov.uk

A second standard, ISA(UK&I)250, requires that auditors understand how those charged with governance gain assurance that all relevant laws and regulations have been complied with.

I should be grateful if you would confirm:

1. how the Audit Committee oversees management processes to identify and respond to risks of fraud and possible breaches of internal control;
2. whether the Audit Committee has knowledge of any actual, suspected or alleged frauds affecting the Council;
3. how the Audit Committee gain assurance that all relevant laws and regulations have been complied with;
4. whether the Audit Committee has knowledge of any instances of non-compliance with laws and regulations; and
5. whether the Audit Committee is aware of any other significant risks facing the Council which might have an effect on the 2008/09 financial statements, and the likelihood of those risks materialising.

Responding to this request should not require any additional work by the Audit Committee, but seeks the Committee's current views based on knowledge from its normal business. In all instances we are interested only in significant matters. A brief response by letter (or email), by 30 April will suffice. Please call me if you wish to discuss anything in relation to this request.

Yours sincerely

Emily Hill
Appointed Auditor

cc Steve Golding, Audit Manager
Derek Williamson, Head of Finance

Emily Hill,
Appointed Auditor,
Audit Commission,
16 South Park Road,
Sevenoaks, Kent,
TN13 1AN

Date: 2nd June 2009
My Ref: BP/pjb

Dear Ms Hill

Compliance with International Audit Standards (UK and Ireland)

Thank you for your letter of the 30 March 2009.

I have set out below the Audit Committee's views in relation to the specific areas that you have raised.

In relation to ISA (UK&I)240 and ISA (UK&I)250:

The Committee is satisfied that:

- The financial statements are not materially mis-stated due to fraud
- There are adequate arrangements for identifying and responding to risks of fraud in the organisation
- There are adequate arrangements in place to communicate to employees the Council's views on business practice and ethical behaviour, and that
- There are adequate arrangements in place to ensure communication to those charged with governance the processes for identifying and responding to fraud.

Continued/….

At six monthly intervals, the Audit Committee require reports on:

- Progress against the approved internal audit work programme
- Outcomes of internal audit activity, which cover internal control issues. These reports include the main risks identified, recommendations to improve control and management actions to improve control
- Investigations of fraud/corruption allegations. The committee receive these as EXEMPT reports, which show the outcome of the investigation and the remedial action taken.

At annual intervals, the audit committee require officers to report on:

- The annual internal audit work programme for approval
- Internal Audit's annual report, including the Head of Internal Audit's opinion on the adequacy of the Council's control environment
- Summary reports on allegations of fraud or corruption investigated by Internal Audit. For 2008/09 the only significant issue concerned an attempt by a housing landlord to claim a landlord grant for housing improvement using forged documents.
- The Strategic Risk Register
- Annual Governance Statement
- The Annual Audit and Inspection letter from the Audit Commission/External Audit

The committee is also able to request reports on any other relevant subject area where required.

All reports to the Audit Committee are shown on the Council's website (other than EXEMPT reports).

Investigations are reported to the committee when the investigation is complete to preserve confidentiality during the investigation. However, arrangements are in place for the Head of Internal Audit and Risk Strategy to make me aware of significant investigations or irregularities.

The Committee does not have any knowledge of any actual, suspected or alleged frauds affecting the Council which have not already been reported to the Committee.

Continued/….

The Committee gains assurance that all relevant laws and regulations have been complied with, through the work of Internal Audit, the Annual Audit and Inspection letter from the Audit Commission and the Council's Annual Governance Statement.

The Committee is not aware of any significant risks facing the Council which might have an effect on the 2008/09 financial statements or of the likelihood of those risks occurring. The Committee considered the Council's Strategic Risk Register during 2008/09 and is satisfied that key risks are included within the Register.

Yours sincerely

John Horne
Chairman
Maidstone Borough Council Audit Committee

Copy to: Steve Golding, Audit Manager

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MAIDSTONE BOROUGH COUNCIL

AUDIT COMMITTEE

15th June 2009

REPORT OF THE ASSISTANT DIRECTOR OF ENVIRONMENTAL SERVICES

Report prepared by_J Kitson_

1. DATA TRANSFER TO THE TRAFFIC ENFORCEMENT CENTRE

1.1 Issue for Decision

1.1.1 To consider the options available to address concerns over data transfer between Maidstone Borough Council and the Traffic Enforcement Centre as part of the process of debt recovery for penalty charge notices under the Traffic management Act 2004.

1.2 Recommendation of the Assistant Director of Environmental Services

1.2.1 That dialogue with the Local Government Association should continue to facilitate a change in policy within the Traffic Enforcement Centre.

1.2.2 That the matter should be raised with the Information Commissioner as the level of risk to data is considered unacceptable.

1.3 Reasons for Recommendation

1.3.1 The Traffic Enforcement Centre is a registration point for all Local Authorities that have decriminalised parking arrangements. Local Authorities send registration data by either floppy disk or via a modem and receive the guarantee that, following computer validation, the registration will be effected with an Order for Recovery given to the Local Authority. Enforcement is undertaken by the pursuing Authority by way of warrant of execution after which many Local Authorities use private bailiffs to execute the warrant. TEC processed some 1.2 million registrations during 2006/07, and a further million registrations April 2007 to December 2007. Maidstone Borough Council has operated decriminalised parking operations since 1997.

1.3.2 Through our internal audit team a risk has been identified in the way in which data is shared between agencies to enable the enforcement process to take place. Currently Maidstone data is downloaded to 3.5in floppy disk and sent via recorded delivery to the Traffic

Enforcement Centre. This of course introduces the potential of data loss/theft in transit. This is an unacceptable risk as each disk holds personal information on individual vehicle owners and case history.

1.3.3 As a result of this risk, Maidstone Borough Council has investigated alternative methods of data transfer with the Traffic Enforcement Centre. It is confirmed that the bulk processing centre accept only two ways of data submission, therefore limiting the alternative choice to submission via a data modem link.

1.3.4 The Councils I.T team has confirmed that this method of data transfer is not compatible with our corporate responsibilities as it contravenes the Government Connect security requirements and may create additional risks by creating a 'back door' to not only our network, but the entire Kent Connects KPSN infrastructure. Several past security audits have highlighted the dangers of modem links and so it has become necessary to challenge the current situation.

1.3.5 The Traffic Enforcement Centre has acknowledged the risks associated with data transfer by 3.5in disk and also agree that the modem link is not ideal. This issue has been raised within the senior management team at the Traffic Enforcement Centre; however they have confirmed that no funds are available at present to change the existing arrangements to enable a more secure data link or encrypted e-mail transfer to be adopted by each Local Authority.

1.3.6 The identified problem is not unique to Maidstone Borough Council as each Local Authority is required to follow the same processes. This leads to the conclusion that high volumes of data are being transferred each day through less than satisfactory systems, placing Councils reputation and the public at unnecessary risk of data loss.

1.3.7 I have formally raised this issue to the Local Government Association to increase awareness of the risk and to request that an approach is made to Traffic Enforcement Centre on behalf of all Local Authorities in an effort to rectify the current situation. Their initial response is positive and discussions will continue in an effort to improve the current situation.

1.3.8 It is recommended that the matter is also raised with the Information Commissioner as the level of risk to data is considered unacceptable.

1.4 Alternative Action and why not Recommended

1.4.1 To continue to send data unencrypted via 3.5in disc will compound the risk of data loss resulting in placing Councils reputation and the public confidence at risk.

1.5 Impact on Corporate Objectives

1.5.1 The Council sets high standard levels to ensure that the risk to data loss is minimised particularly when data is transferred to external bodies.

1.6 Risk Management

1.6.1 Although Parking Services have not lost any data in transit to the Traffic Enforcement Centre, the risk remains high as the method of transfer is unsecure and the data will only be accepted as an unencrypted file by the Traffic Enforcement Centre. To reduce the risk this data is currently sent via registered mail by Parking Services.

1.7 Other Implications

1.7.1

1.	Financial	
2.	Staffing	
3.	Legal	
4.	Equality Impact Needs Assessment	
5.	Environmental/Sustainable Development	
6.	Community Safety	
7.	Human Rights Act	
8.	Procurement	
9.	Asset Management	

1.8 Background Documents

1.8.1 None

<u>NO REPORT WILL BE ACCEPTED WITHOUT THIS BOX BEING COMPLETED</u>

Is this a Key Decision? Yes [ ] No [x]

If yes, when did it appear in the Forward Plan? ________________________

Is this an Urgent Key Decision? Yes [ ] No [x]

<u>Reason for Urgency</u>