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Ask for: Andrew Tait  
Date: 20 July 2016

Dear Member

**GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 21 JULY 2016**

I am now able to enclose, for consideration at the Thursday, 21 July 2016 meeting of the Governance and Audit Committee, the Appendix to the following report that was unavailable when the agenda was printed.

**Agenda Item No**

9 **External Audit Annual Findings Report 2015/16 (Pages 3 - 40)**

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Sass', is written over a light blue horizontal line.

**Peter Sass**  
**Head of Democratic Services**

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By: John Simmonds, Deputy Leader and Cabinet Member for  
Finance and Procurement  
Andy Wood, Corporate Director of Finance and Procurement

To: Governance and Audit Committee – 21<sup>st</sup> July 2016

Subject: **External Audit – Annual Findings Report 2015/16**

Classification: Unrestricted

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**Summary:** This paper sets the context to the External Auditor's Annual Audit Findings report.

**NOTE – THE EXTERNAL AUDIT REPORT WILL BE TABLED ON THE DAY OF THE MEETING FOR DECISION**

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### **Introduction and background**

1. Grant Thornton, as External Auditor to the Council, is required to report to the Committee the findings from the audit of the 2015/16 financial statements.
2. The report includes the key messages arising from the audit work undertaken to address the risks identified in the Audit Plan presented to this Committee in April 2016. It also includes the results of the work undertaken to assess the Council's arrangements to secure value for money and financial resilience.

### **Process**

3. The 2015/16 financial statements (except for the Annual Governance Statement) were provided to Grant Thornton for audit during June 2016. The audit of the financial statements started shortly afterwards and the work was substantially complete by early July 2016.
4. Members will have the opportunity to ask questions about the audits and reports to help inform their decision before formally approving the 2015/16 financial statements.

### **Recommendations**

5. Members of the Governance and Audit Committee are asked to:
  - take note of any adjustments to the accounts of the Council
  - Note the conclusions on value for money and the Council's financial resilience:
  - agree the draft management response to the action plan, subject to any further verbal updates (Appendix A).

**Robert Patterson**  
**Head of Internal Audit (Ext: 416554)**

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# The Audit Findings for Kent County Council

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**Year ended 31 March 2016**

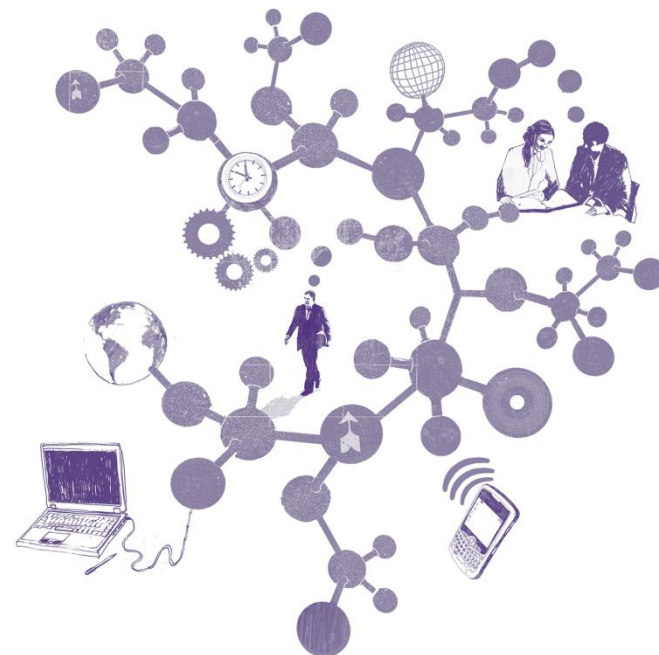
21 July 2016

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21 July 2016

Dear Members of the Governance and Audit Committee

**Audit Findings for Kent County Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Kent County Council, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Paul Hughes  
Engagement lead

**Chartered Accountants**

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- B Audit opinion

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# Section 1: Executive summary

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| 01. Executive summary                         |
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| 03. Value for Money                           |
| 04. Fees, non audit services and independence |
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## Purpose of this report

This report highlights the key issues affecting the results of Kent County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter our audit approach, which we communicated to you in our Audit Plan dated April 2016.

Our audit is complete although we are finalising our procedures in the following areas:

- updating our post balance sheet events review, to the date of signing the opinion;
- Whole of Government Accounts; and
- on-going queries with electors.

We received draft financial statements on 3 June 2016 and accompanying working papers at the commencement of our work on 6 June 2016, in accordance with the agreed timetable. This was brought forward by a week from the prior year.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2016 recorded net expenditure of £960,005,000. We have also recommended a number of adjustments to improve the presentation of the financial statements.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements.

This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

## Controls

### Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

### Findings

We draw your attention in particular to control issues identified in relation to:

- Schools bank account reconciliations in respect of resolving historical differences
- the closure of historical orders raised
- Delays in the processing of disputed invoices on the payables system

Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

We are currently dealing with some queries from electors, upon the closure of these matters we will issue our audit certificate.

Further details of our work on other statutory powers and duties is set out in section four of this report.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Corporate Director of Finance and Procurement.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Corporate Director of Finance and Procurement. and the finance team. We will follow up on the recommendations made during the interim audit visit in 2016/17.

### **Acknowledgement**

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
21 July 2016

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## Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £42,803,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2,140,000. This remains the same as reported in our audit.

We did not identify any items where a separate materiality level was deemed appropriate.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

|         | Risks identified in our audit plan   | Work completed  | Assurance gained and issues arising   |
|---------|--|---|---|
| Page 14 | <p><b>1. The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Kent County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> | <p>Our audit work has not identified any issues in respect of revenue recognition.</p>  |
|         | <p><b>2. Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>   | <p>Work performed in response to this risk is as follows:</p> <ul style="list-style-type: none"> <li>• review of entity controls;</li> <li>• testing of journal entries;</li> <li>• review of accounting estimates, judgements and decisions made by management; and</li> <li>• review of unusual significant transactions.</li> </ul>  | <p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> |

## Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the Council. We set out below the work we have completed to address these risks.

|         | Risks identified in our audit plan  | Work completed  | Assurance gained and issues arising   |
|---------|---|---|---|
| Page 15 | <b>3. Property, plant and equipment</b><br>Revaluation measurements not correct (valuation)   | We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• review of management's processes and assumptions for the calculation of the estimate;</li> <li>• review of the competence, expertise and objectivity of any management experts used;</li> <li>• review of the instructions issued to valuation experts and the scope of their work;</li> <li>• review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; and</li> <li>• testing of revaluations made during the year to ensure they were input correctly into the Council's asset register.</li> </ul>   | Our work is complete. Our audit work has not identified any significant issues in relation to this risk and we are satisfied that PPE is materially correct.                        |
|         | <b>4. Valuation of Pension Fund Net Liability</b><br>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements | We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> <li>• documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated;</li> <li>• walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements;</li> <li>• review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary.</li> </ul> | Our work is complete. Our audit work has not identified any significant issues in relation to this risk and we are satisfied that pension fund net liability is materially correct. |

# Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

| Transaction cycle  | Description of risk   | Work completed  | Assurance gained & issues arising  |
|--|---|---|--|
| <p><b>Employee remuneration</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 16</p> | <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>               | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle;</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>• reviewed the reconciliation of the payroll system to the general ledger, including trend analysis for the financial year; and</li> <li>• performed sample testing of payroll records to gain assurance that employees have been remunerated correctly during 2015/16.</li> </ul> | <p>Our audit work has not identified any significant issues in relation to the risk identified</p>                               |
| <p><b>Operating expenses</b></p>   | <p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p> | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle;</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding;</li> <li>• Sample testing of expenditure, creditors, unrecorded liabilities,</li> </ul>   | <p>Our work is complete. Two issues have been identified in relation to the risk identified. See further details on page 13.</p> |

# New issues identified during the course of the audit

This section provides commentary on new issues which were identified during the course of the audit and were not previously communicated in the Audit Plan

|         | Issue   | Commentary  |
|---------|---|---|
| Page 17 | <p><b>1. Disputed invoice</b></p> <p>Our sample testing of expenditure identified an error in relation to a disputed invoice from 2014/15 that was not input until 2015/16 because it was in dispute.</p>   | <p>The disputed invoice should have been recorded on the iProc payments system when received and put on hold for payment while the dispute resolution process was ongoing. This would have automatically accrued the expense. In this case the invoice was not recorded in iProc until Oct 15 and not paid until Feb 16. A retrospective PO was created to be able to post the invoice. Invoice value of £750.</p> <p>Further investigation and evidence confirmed that the item was in dispute and that there were a further 5 invoices relating to the same fostering case giving a total error of £4,500.</p> <p>It was not possible to prove that the error was isolated to that one service. Nor was it possible to quantify disputed items not recorded.</p> <p>Projecting the original £750 error over the total sample population gives a theoretical maximum error of £7,531,875. This is well below our materiality level, we are therefore satisfied that this could never cause a material misstatement in the financial statements. This has been included as an unadjusted misstatement in the table on page 21.</p> <p><b>Management response</b></p> <p>The theoretical estimate of £7,531,875 is mitigated by the following:</p> <ul style="list-style-type: none"> <li>• Suppliers would chase for unpaid invoices</li> <li>• The monthly budget monitoring process in discussion with budget manager would identify issues</li> <li>• Expenditure trend data would throw up any anomalies</li> <li>• A provision could be put in place to cover any disputed invoices</li> <li>• Potentially there would be manual creditors in place</li> </ul> <p>Since 2014-15 there has been a major drive to use i-Proc for all purchases at the point of order and prior to goods and services being received. In the majority of cases, the invoices go to a central point and are recorded on the payments system within the payment due date.</p> |
|         | <p><b>2. Matching of invoices and purchase orders</b></p> <p>During our sample testing of expenditure, we identified an item that had been receipted and paid. The item remained open on the system as the amount paid was less than the amount the Council expected to pay. The difference was never closed and the system kept accruing for the amount.</p> | <p>We carried out further testing and obtained a listing of orders open as of 31 March 2016. We are satisfied that the list of open orders on the system is not material and so any difference between the invoice paid and the order would not be material. A best practice recommendation has been raised in respect of this. See appendix A.</p> <p><b>Management response</b></p> <p>There is an open orders report for budget managers to view and manage their open orders. There is an ongoing review of i-proc to address this and other issues.</p>  |

# Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area  | Summary of policy   | Comments   | Assessment  |
|--|---|--|---|
| <p><b>Revenue recognition</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 18</p> | <ul style="list-style-type: none"> <li>• Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.</li> <li>• Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:                             <ul style="list-style-type: none"> <li>- the Council will comply with the conditions attached to the payments, and</li> <li>- the grants or contributions will be received.</li> </ul> </li> </ul> | <p>Overall, the Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2015/16.</p>   | <p style="text-align: center;">●<br/><b>Green</b></p> |
| <p><b>Judgements and estimates</b></p>   | <ul style="list-style-type: none"> <li>• Key estimates and judgements include:                             <ul style="list-style-type: none"> <li>– useful life of PPE;</li> <li>– revaluations;</li> <li>– impairments;</li> <li>– accruals;</li> <li>– valuation of pension fund net liability; and</li> <li>– other provisions.</li> </ul> </li> </ul>   | <p>The Council's use of accounting estimates is disclosed in note 5 (Assumptions made about the future and other major sources of estimation uncertainty). Our review of the judgements and estimates has not identified any significant issues.</p> | <p style="text-align: center;">●<br/><b>Green</b></p> |



**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements (continued)

| Accounting area                  | Summary of policy  | Comments   | Assessment  |
|----------------------------------|--|--|---|
| <b>Going concern</b>             | Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements. | We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements. | <br><b>Green</b> |
| <b>Other accounting policies</b> | We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.   | The Council's accounting policies are appropriate and consistent with previous years.  | <br><b>Green</b> |

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**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

|    | Issue  | Commentary   |
|----|--|--|
| 1. | <b>Matters in relation to fraud</b>                | We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.   |
| 2. | <b>Matters in relation to related parties</b>      | From the work we carried out, we have not identified any related party transactions which have not been disclosed.   |
| 3. | <b>Matters in relation to laws and regulations</b> | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.   |
| 4. | <b>Written representations</b>                     | A standard letter of representation has been requested from the Council.   |
| 5. | <b>Confirmation requests from third parties</b>    | We requested from management permission to send confirmation requests to banks and lenders. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however where requests were not received we undertook alternative procedures. |
| 6. | <b>Disclosures</b>                                 | Our audit work identified no material omissions in the financial statements. A number of amendments have been discussed with the Council to enhance the disclosures made within the draft accounts (details are included within page 23 of this report).   |

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## Other communication requirements (continued)

|    | Issue  | Commentary   |
|----|--|--|
| 7. | <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a number of areas:</p> <p>We have not identified any issues we would be required to report by exception in the following areas</p> <p>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</p>   |
| 8. | <b>Specified procedures for Whole of Government Accounts</b> | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and the planned timescale for the work is planned for September 2016.</p> |

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# Internal controls – review of issues raised in prior year

|    | Assessment | Issue and risk previously communicated   | Update on actions taken to address the issue   |
|----|------------|--|--|
| 1. | ✓          | The schools payroll direct debits for February 2015 and March 2015 were not processed through the ledger on a timely basis. These receipts should be confirmed through the schools payroll bank reconciliation process and followed up if variances are identified on a monthly basis. | <p>Issue on direct debits from the prior year has been resolved and the direct debit process is now happening on a timely basis.</p> <p>However, it was noted from our testing this year that although the schools salaries account bank reconciliation is taking place, it needs to be presented in a more user friendly format. Reconciliation items are identified but in some cases not investigated and cleared. There were amounts in the ledger from as far back as 2011/12 amounting to £159,483. A recommendation has been raised in respect of this. See appendix A.</p> |

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**Assessment**

- ✓ Action completed
- X Not yet addressed

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

| Detail  | Comprehensive Income<br>and Expenditure<br>Statement<br>£ | Balance Sheet<br>£  | Impact on total net<br>expenditure<br>£ |
|---|---|---|---|
| 1<br>Page 23<br>Direct debit payments for teachers salaries are incorrectly shown in general debtors and general creditors, these should be netted off reducing other debtors and other creditors by £7,227,000.        |   | Debtors: (7,227,000)<br>Creditors: 5,766,000<br>Cash: 1,464,000 | 0                                       |
| 2<br>Payments in advance for care costs incorrectly treated at year end - effectively corrected twice, once by cashiers and once by the accounts team. Total adjustment is £4,800,000 increasing debtors and creditors. |   | Debtors: 4,800,000<br>Creditors (4,800,000)                     | 0                                       |
| <b>Overall impact</b>   | <b>£0</b>   | <b>£0</b>   | <b>£0</b>                               |

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Governance and Audit committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail   | Comprehensive<br>Income and<br>Expenditure Statement<br>£ | Balance Sheet<br>£ | Reason for not adjusting                                 |
|--|---|--------------------|--|
| 1 Projected uncertainty related to disputed invoice not recorded (as set out on page 13). This is a projected uncertainty and not an exact actual error. Total error identified was trivial at £4,500, however as it was not possible to isolate this error and not possible to quantify disputed items not recorded. The projected uncertainty was calculated based on total amount tested extrapolated over the sample population. We are satisfied that an error of this type could not cause a material misstatement in the financial statements and we would not expect the Council to adjust for this in the financial statements. | 7,531,875   | (7,531,875)        | This is a projected error and not an exact actual error. |

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## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been corrected in the final set of financial statements.

|   | Adjustment type | Value<br>£ | Account balance  | Impact on the financial statements   |
|---|-----------------|------------|--|--|
| 1 | Disclosure      | 59,006,000 | Note 32 - Amounts Reported for Resource Allocation Decisions | Schools income of £59,000,000 incorrectly netted off expenditure. Income and expenditure increased by this amount.   |
| 2 | Disclosure      | 8,700,000  | Note 15 – Property, Plant and Equipment                      | Reconciliation of the ledger to the fixed asset register identified a variance of £8,700,000 due to fully depreciated historical assets included in the opening balance and not the fixed asset register |
| 5 | Disclosure      | 4,485,000  | Note 20 - Leases   | Leases note for future lease payments was incorrect due to the formulae missing bottom line of the calculation. Lease payments in year working paper used incorrect figure.                              |

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## Section 3: Value for Money

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|            |   |
|------------|---|
| 01.        | Executive summary                         |
| 02.        | Audit findings                            |
| <b>03.</b> | <b>Value for Money</b>                    |
| 04.        | Fees, non-audit services and independence |
| 05.        | Communication of audit matters            |

# Value for money conclusion

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated April 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for money conclusion (continued)

## **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 25 to 26.

## **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

## **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk   | Work to address   | Findings and conclusions   |
|--|---|--|
| <p><b>Transformational Programmes</b><br/>The Council is undertaking two extensive transformational programmes: Adults &amp; Children's Social Care and Facing the Challenge.</p> <p>Phase 1 of Facing the Challenge was successfully completed last year, however this remains a highly ambitious programme for the future vision of the Council. The plans are substantial and will require radical changes to the way in which the Council commissions and delivers services.</p> <p>Projected savings have been incorporated into the medium term financial plan and there remains a risk that the programmes could slip and savings are not realised in line with the budgeted plans.</p> | <p>Review of the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p> <p>Review of progress made and significant developments in year, and the overall outcomes and expectations from the programmes.</p>   | <p>2015/16 saw the implementation stage of transformational changes across the county in Adult's and Children's Social Care. The Council has successfully embedded new models of working across numerous work streams, delivering transformational savings of £27.3m this year.</p> <p>The focus is now starting to shift towards the sustainability of the embedded changes and the handover from its transformation partner, Newton Europe back to the KCC project teams. This will be a key challenge and risk for 2016/17 as projected on-going savings have been incorporated into the MTFP.</p> <p>The Council has in place strong risk assurance frameworks and governance arrangements in respect of the significant transformations. They have identified key project risks, which are managed and monitored with appropriate oversight by senior management and by members.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p> |
| <p><b>Medium Term Financial Plans</b><br/>In line with many other authorities, the Council's medium term financial planning identifies significant budget shortfalls over the coming years. A balanced budget has been set for 2016/17, but this will require the delivery of substantial savings of £86.2m.</p> <p>With higher spending demands, changing demographics increasing demand on services and reductions in Central Government funding, the Council is predicting that annual savings of between £80m - £90m will be needed each year to balance the budget. For 2017/18, the Council is yet to identify over £50m of the savings needed.</p>                                      | <p>Review of arrangements over medium term financial planning, including the reasonableness of significant assumptions around inflation, growth and savings.</p> <p>Consideration of plans to close the projected budget gap from 2017/18 to 2018/19, including identification of savings plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.</p> | <p>As in previous years the Council has demonstrated that it has sound financial planning processes in place and robust financial control which delivered a revenue underspend in 2015/16 of £7.6m (excluding schools). £2.5m of this will boost reserves and the remainder rolled forward to the 2016/17 budget.</p> <p>It was noted that the capital outturn (excluding schools and PFI) was an underspend of £27.7m (10.5%), which is a continuing trend from previous years, albeit a reduced underspend (25% in 2014/15).</p> <p>The delivery of the MTFP is heavily dependent on the realisation of savings from the redesign of services under the transformation programmes. In 2015/16, £27.3m of transformation savings were successfully achieved and the focus in 2016/17 will be to sustain the embedded changes and the associated savings.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements</p>                             |

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

| Significant risk  | Work to address   | Findings and conclusions   |
|---|---|--|
| <p><b>Health &amp; Social Care Integration</b><br/>                     The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is complex and high profile.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 30</p> | <p>Review of project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p> | <p>Health and social care integration has been recognised as a corporate level risk reflecting the extreme pressure on health and social care services and the need for integrated working with the health sector. Various controls are in place across the Council to manage this risk, including oversight by the Health and Wellbeing Board.</p> <p>During 2015/16 effective joined up working had not yet been fully established. An example of this would be the arrangements for the Better Care Fund, which is only an aligned budget rather than a true pooled budget arrangement. However in response to the NHS England requirement for five year Sustainability and Transformation Plans, the Council has been working in conjunction with local health partners to develop ambitious plans that align with its own wider transformation agenda and redesign of services. These plans will be rolled out from 2016/17 with progress being monitored closely by the Health and Well Being Board.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has established proper arrangements during 2015/16 and to begin to implement these plans in 2016/17.</p> |

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## Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

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# Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

## Fees

|   | Proposed fee<br>£ | Final fee<br>£ |
|---|-------------------|----------------|
| Council audit                           | 155,925           | 155,925        |
| <b>Total audit fees (excluding VAT)</b> | <b>155,925</b>    | <b>155,925</b> |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

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## Fees for other services

| Service                                 | Fees £        |
|---|---------------|
| <b>Audit related services:</b>          |               |
| • Independent auditor assurance reviews | 12,500        |
| • Advisory services                     | 20,900        |
| • Tax advice                            | 42,750        |
| <b>Non-audit services</b>               | <b>76,150</b> |

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

**05. Communication of audit matters**

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# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan   | Audit Plan | Audit Findings |
|--|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance  | ✓          |                |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications   | ✓          |                |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought  |            | ✓              |
| Confirmation of independence and objectivity   | ✓          | ✓              |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.<br>Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged<br>Details of safeguards applied to threats to independence | ✓          | ✓              |
| Material weaknesses in internal control identified during the audit  |            | ✓              |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements   |            | ✓              |
| Non compliance with laws and regulations   |            | ✓              |
| Expected modifications to auditor's report   |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |

# Appendices

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# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

| Rec No.      | Recommendation  | Priority | Management response | Implementation date & responsibility                            |
|--------------|---|----------|---------------------|---|
| 1<br>Page 36 | A review of the schools salaries bank reconciliation found that there were reconciling items dating back to 2011/12 amounting to £159,483. Reconciling items should be investigated and cleared on a timely basis.                                    | Medium   | Agreed              | Immediate and responsibility of BSC Operational Service Manager |
| 2            | All open orders should be reviewed on a regular (or at least annual) basis to ensure that if final invoice has been received and resolved, remaining amounts are closed down. This will ensure remaining expense/accrual is not incorrectly included. | Low      | Agreed              | Immediate and responsibility of Head of Procurement             |

# Appendix B: Audit opinion

**We anticipate we will provide the Council with an unmodified audit report**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

We have audited the financial statements of Kent County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement; and the overall presentation of the financial statements. In addition, we read all the financial

and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

### Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

### Respective responsibilities of the Authority and auditor

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

the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

***Delay in certification of completion of the audit***

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion

on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Paul Hughes  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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21 July 2016



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