

27 April 2011

Katherine Kerswell
Group Managing Director
Kent County Council
County Hall
Maidstone
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Dear Katherine

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Annual audit fee 2011/12

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year at Kent County Council. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12. The audit fee covers the:

- audit of financial statements;
- value for money (vfm) conclusion; and
- whole of government accounts.

As I have not yet completed my audit for 2010/11, the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses. However, as part of my VFM conclusion risk assessment for 2010/11 I have identified specific risks relevant to 2011/12. I will update my risk assessment throughout 2011/12 but at this stage propose to review the following risks:

Risk area	Audit response
<p>Senior management restructure</p> <p>The Council's Change to Keep Succeeding proposals were approved by the Council on 16 December and will be implemented for the 2011/12 financial year.</p> <p>Significant changes to the management team may impact on the leadership team's collective knowledge, experience and skills and may have an impact on business continuity and capacity. Strong transitional arrangements are particularly important at a time when the Council has a particularly challenging agenda and as a result the</p>	<p>I will consider the impact of the restructuring on the Council's control environment and the proper functioning of the statutory roles of the Section 151 officer and Monitoring Officer through ongoing planning work and liaison with key managers.</p>

Risk area	Audit response
<p>Council has established project management arrangements, including risk management arrangements to mitigate against the risk identified.</p> <p>Although the proposals gave due consideration to the statutory roles of the Section 151 and Monitoring Officers, until the new structure beds down it will be unclear whether the structure will enable the proper functioning of these positions.</p>	
<p>Financial challenges</p> <p>The Council has identified savings requirement of £95 million in 2011/12 and £65 million the following year. Although the Council has an excellent history of delivering against its efficiency targets, this was of a different scale to the savings now required. The Council has identified that in 2011/12 this will require efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million.</p>	<p>I will review the progress the Council has made against its savings target. I will review the project management arrangements to monitor the savings plan and manage risks at a corporate level and consider the progress against milestones for a sample of individual schemes.</p>
<p>Changing public services agenda</p> <p>The government plans a number of significant changes to public services to which the Council will need to respond whilst maintaining and improving current service delivery.</p> <p>The Council's Medium Term Plan, Bold Steps for Kent, identifies some of the most significant of these changes on the Council's corporate financial and performance management arrangements including:</p> <ul style="list-style-type: none"> • the increased role in health and relationships with General Practitioners; • increased use of personal budgets; • mutualisation of service provision; • the establishment of the Kent and Greater Essex Local Enterprise Partnership; • the piloting of community budgets; and • the operation of the big society fund. 	<p>We will monitor any significant changes to the Council's operating environment and any impact on the Council's financial plans.</p>

Risk area	Audit response
<p>Value for money probe</p> <p>In the challenging financial environment described above, the Council must ensure that it achieves value for money in all areas of service provision.</p> <p>The Acting Director of Finance has discussed with the Corporate Management Team potential areas where the Council might benefit from a more in-depth consideration of value for money. In considering these, we have identified two potential areas of significant expenditure which would be relevant to our VFM conclusion relating to obtaining value for money in expenditure on:</p> <ul style="list-style-type: none"> • preventative children's services and the impact of the cost on placements; or • reactive and proactive highways maintenance. <p>The Council is undertaking work in both these areas, as a result of the OFSTED inspection and re-letting of the Highway maintenance contract respectively.</p>	<p>We will undertake further work to identify the specific risks in relation to these areas, or any new emerging areas, and consider the possible scope of any work. We will select one area as a detailed probe and consider the Council's arrangements to obtain value for money in the selected service.</p>

Audit fee

The Commission has consulted on its work programme and scales of fees for 2011/12. In 2011/12 the Commission set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee reflects proposed decreases in the total audit fee, as follows:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a cut in scale fees resulting from our new approach to local VFM audit work; and
- a cut in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower continuing audit costs after implementing IFRS.

The scale fee for Kent County Council is £346,500. The scale fee is based on the planned 2010/11 fee, adjusted for the proposals summarised above, shown in the table below.

Audit area	Scale fee 2011/12	Planned fee 2010/11
Audit fee	£346,500	£385,000¹
Certification of claims and returns	£20,685	£25,400

In addition, the Commission has agreed, subject to affordability, to make additional rebates in 2011/12. The Commission will notify audited bodies of the amount due to them in the summer.

I will issue a separate audit plan in December 2011. This will detail the risks identified to both the financial statements audit and the vfm conclusion. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with the Director of Finance. I will then prepare a report outlining the reasons the fee needs to change for discussion with the Governance and Audit Committee.

In line with my discussions with the Governance and Audit Committee and Internal Audit, the fee assumes that I will be able to place reliance on the work of Internal Audit and that this will be available in a timely manner for review. Subject to any changes the Council may make to existing systems or implementation of any new systems, I anticipate that I will place reliance on the work of Internal Audit for the following systems in 2011/12:

- accounts payable;
- accounts receivable;
- payroll;
- cash and bank;
- foster care; and
- general ledger.

I will issue a detailed project plan setting out the scope of my review before work begins and report key findings to the Governance and Audit Committee.

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

¹ Audit fee included in my letter of 17 May 2010 sets out the total audit fee of £385,000. This was reduced by the Audit Commission rebate of £24,494 to subsidise the costs of the transition to International Financial Reporting Standards and rebate of £14,592 to reflect the revised vfm conclusion requirements.

Audit team

Your audit team must meet high specifications and must:

- understand you, your priorities and provide you with fresh, innovative and useful support;
- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Darren Wells Engagement Lead	d-wells@audit-commission.gov.uk 0844 798 2304	I am responsible for the overall delivery of the audit including the quality of outputs, liaison with the Group Managing Director and Chair of the Governance and Audit Committee and issuing the auditor's report.
Emily Hill Senior Engagement Manager VFM/ Legality	e-hill@audit-commission.gov.uk 0844 798 2861	Emily manages and coordinates the audit work in relation to the vfm conclusion and any legality work. Key point of contact for the Acting Director of Finance.
Elizabeth Olive Engagement Manager	e-olive@audit-commission.gov.uk 0844 798 1377	Liz manages and coordinates the audit work in relation to the opinion on the financial statements. Key point of contact for the Acting Director of Finance.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 0844 798 2632	Jeremy will lead the on-site team in delivering the audit of the financial statements.

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. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Darren Wells
District Auditor

cc Andy Wood, Acting Director of Finance

cc Cllr Long, Chair of the Governance and Audit Committee

Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Governance and Audit Committee.

Table 1

Planned output	Indicative date
Audit plan	December 2011
Progress report on VFM conclusion risks	To be confirmed
Annual governance report	July 2012
Auditor's report giving the opinion on the financial statements and value for money conclusion	July 2012
Final accounts memorandum (to the Director of Finance)	October 2012
Annual audit letter	November 2012
Annual claims and returns report	February 2013