

Audit Summary Report

November 2007



Progress Report

Kent County Council

Audit 2007/08

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

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

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Summary report

Introduction

- 1 Our audit and inspection plan for 2007/08 was presented to the Governance and Audit Committee on 7 March 2007. This report sets out for members' information, progress to date against the areas of work included within the audit plan. It does not include details of our audit of Kent County Council's superannuation fund in 2006/07. We will present an audit plan to the Superannuation Committee on 7 March 2008.

Background

- 2 The audit and inspection plan for 2007/08 set out the following areas of work:
 - financial statements and whole of government accounts;
 - value for money conclusion;
 - use of resources;
 - data quality;
 - national fraud initiative; and
 - considering specific risks faced by the Council.
- 3 These areas are covered in the detailed report section below.

Main conclusions

- 4 We have made progress on our work in line with expectations. We continue to build our knowledge of the Council's operations, liaising closely with your officers.
- 5 Our preliminary work on the financial statements 2007/08 has started. We are currently focusing on reviewing your material financial systems that support the production of the financial statements. The specific use of resources risks identified in our audit and inspection plan 2007/08 continues to be a key focus for us. A summary of progress is set out at Appendix 1.
- 6 Work on data quality in July 2007 and the use of resources assessment completed in September 2007 have been undertaken by PwC. Our annual assessment in these areas will be undertaken in July 2008.

Detailed report

Financial statements and whole of government accounts

- 7 Our opinion on the Council's financial statements 2007/08 is planned for late July 2008. Our work to achieve this is split into two main phases. The first is a review of your key financial and information systems that contribute to the production of statements to see if we can rely upon them to produce accurate data. The second stage involves detailed testing of a sample of entries within the statements.
- 8 We started the first phase in November 2007. We are ensuring that we have a clear understanding of how the material systems are intended to work and then we will test key controls to confirm their operation. We are liaising closely with Internal Audit and will rely on its work where possible to maximise the benefits of the total audit resource available to the Council.
- 9 We have met and will continue to meet with the key staff responsible for the production of the statements. This early contact is essential to ensuring that the second phase of our work will be achieved by the deadline set.
- 10 Our whole of government accounts work will not be undertaken until our audit opinion has been given. The deadline set by the Government for submission of the audited set of these accounts is expected in September 2008.

Value for money conclusion

- 11 We are required to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources and is known as the value for money conclusion.
- 12 Our work is reported at the same time as we issue our opinion on the financial statements. We reach our conclusion based on consideration of a number of sources of information about the Council such as its use of resources scores and, for this year's audit we will have a particular focus on the findings on the Corporate Assessment in early 2008.

Use of resources

- 13 An assessment of the Council's arrangements in place for financial reporting, financial management, financial standing, internal control and value for money for the period 1 April 2006 to 31 March 2007 has been undertaken by PwC. The outcome of this assessment will be reported in December 2007 as part of the Audit Commission's annual assessment of the Council.
- 14 We have agreed with officers that the annual assessment for the financial year 2007/08 will be started in July 2008. This assessment will focus on changes in the arrangements, evaluating any improvements, and confirming that the arrangements operated effectively during the year.
- 15 Our audit and inspection plan for 2007/08 identified eight areas of potential audit risk which were identified as part of our initial planning. We are continuing to consider these risks to determine the extent of any audit work. Progress to date is set out at Appendix 1. As stated in our plan, we will liaise with the Council if we consider that additional work above that provided for within the audit fee set is required. Based on the work done at this stage, there are no such areas to highlight for your attention.

Data quality

- 16 Work has been undertaken recently on the Council's data quality arrangements by PwC, your previous external auditors. This will be reported by PwC separately.

National Fraud Initiative

- 17 The Council participates in the Audit Commission's scheme that matches computerised data. We are liaising with your officers and will review the outcomes later in our audit.

Appendix 1 – Use of resources update

Significant risks identified	Planned action in response to residual audit risk	Action to date
<p>The governance arrangements for the children's trust are unclear.</p>	<p>We will work with officers to gain an understanding of the governance framework for the children's trust.</p>	<p>We have undertaken a short review to obtain background knowledge of the developing arrangements. Our initial assessment is that the developing governance arrangements of this major partnership are being appropriately managed.</p> <p>We will revisit the need for further audit work following the Joint Area Review (JAR) that will be undertaken in early 2008 as part of the Corporate Assessment, itself part of the Comprehensive Performance Assessment process that includes the JAR inspection.</p>
<p>Ineffective approach to the set up and management arrangements for partnerships result in failure to achieve desired outcomes.</p>	<p>We will work with officers to gain an understanding of the effectiveness of a range of partnerships across the Council such as Kent Commitments.</p> <p>We will consider the impact of the Council's planned actions in response to the corporate risk it has identified.</p> <p>We will seek to contribute to the Council's existing arrangements based on our previous experience of working in this area at other authorities.</p> <p>As our knowledge of the Council increases we will consider whether any further work is needed.</p>	<p>We note that the Council has produced a guidance framework to assist its officers maximise the benefits from partnership working and to ensure that effective governance arrangements are in place to deliver the outcomes expected and to protect the Council.</p> <p>We will consider the impact of the Council's planned actions in early 2008.</p>

Significant risks identified	Planned action in response to residual audit risk	Action to date
<p>Social care services are put under increased pressure as a result of difficulties in the local health economy. Consequences include redirection of resources from prevention to acute services and increased delayed discharges.</p>	<p>We will review the Council's response by using one of our health care specialists who has undertaken work on similar risks previously.</p> <p>We will consider whether there are benefits to be gained from a whole systems review of the health economy and if so will discuss the coverage and fee for this work.</p>	<p>Our work in this area has been limited to date although we continue to build our knowledge of the Council's interactions with its NHS partners. We will use the data published in November 2007 as part of the CSCI annual assessment to determine if the business risk is being managed and in discussion with officers whether any audit review should be considered.</p>
<p>Private Finance Initiative (PFI) projects do not offer good value for money. Accounting for PFI contracts is inappropriate.</p>	<p>We need to gain an understanding of the schemes operating and those being planned to ensure that the risks associated with such schemes are being effectively managed such that they offer good value for money.</p> <p>We also need to establish that accounting entries are appropriately recorded.</p>	<p>We considered the Council's accounting treatment the Kent Better Homes Active Lives PFI and stated that on the basis of the information provided to date, we are not currently minded to challenge the Council's conclusion that an off balance sheet treatment is appropriate.</p> <p>We have also begun work on assessing the arrangements for the Building Schools for the Future scheme.</p> <p>Further work on the effectiveness of the management of the schemes that are in full operation is planned for 2008.</p>

Significant risks identified	Planned action in response to residual audit risk	Action to date
<p>Information technology (IT) and associated systems do not effectively support the protection of vulnerable citizens.</p>	<p>We need to gain assurance as to effectiveness of information systems that seek to safeguard vulnerable citizens.</p> <p>We will consider the need for an information governance audit and if required will discuss the coverage and fee for this work.</p>	<p>We have undertaken an initial overview and our preliminary findings are that Children’s and Families Services (CFS) have systems that seek to protect children and young people. In view of the forthcoming JAR we have not progressed this work further. We will await the results of the JAR before determining whether any additional work should be planned.</p> <p>We are aware that the IT systems for adults are being reviewed by the Council. We have not yet undertaken an initial overview of the arrangements relating to adults.</p>
<p>IT systems do not provide accurate data for the preparations of the financial statements on which an unqualified opinion can be given.</p>	<p>To comply with the International Standards on Auditing (ISA) and to give an opinion on the financial statements, we need to understand and appraise the Council's material financial and information systems.</p>	<p>Based on an initial risk assessment of the Council's general IT control environment and based on the work undertaken, we have concluded that the control environment is a low risk in terms of our opinion on the Council's financial statements. Our work covered controls over data processing including manipulation and loss of data, access controls to material systems and overall management arrangements within the IT environment.</p>

Significant risks identified	Planned action in response to residual audit risk	Action to date
The Council does not obtain a good or better rating at the Corporate Assessment/JAR in 2008.	We will provide support to the Council in its preparations such as workshops for officers to support the Council's preparations.	We have met with officers and have made a presentation to assist the Council in its preparations for the Corporate Assessment/JAR.
Internal audit arrangements are not effective following the restructuring recently undertaken and reliance cannot be placed on its work in support of our statutory functions.	To comply with the ISA requirements and to support our work on the opinion on the financial statements we will undertake a review of Internal Audit against the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice for internal audit in local government. We will seek to gain high level assurance that Internal Audit's work can be relied upon.	We have agreed with the Head of Internal Audit that a detailed review of Internal Audit against the CIPFA Code will be undertaken early in 2008. In addition to this work we are having regular contact with Internal Audit staff and are developing joint work arrangements in order to maximise the value obtained from the combined audit resources available to the Council.