The Audit Findings for Kent County Council

Year ended 31 March 2013

5 July 2013

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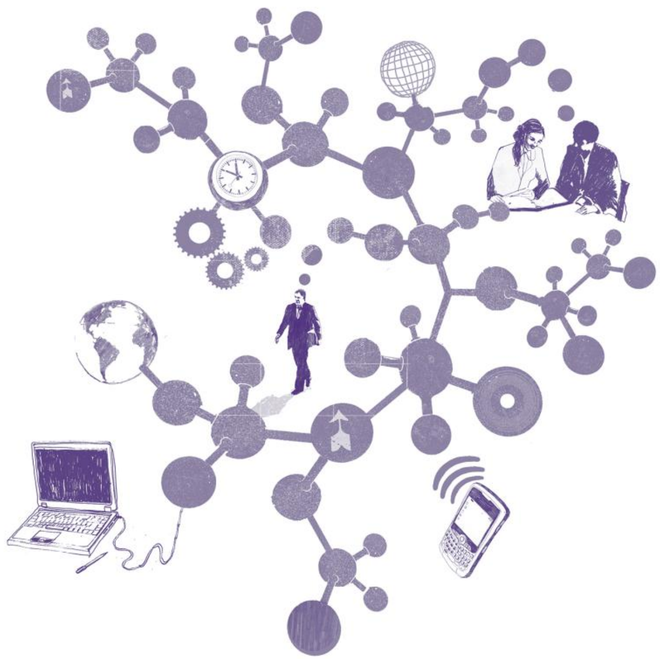

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify 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.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Kent County Council's ('the Council') financial statements for the year ended 31 March 2013. 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 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income 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 to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2013.

Our audit is substantially complete. subject to finalising our work in the following areas:

- a review of the final version of the statement of accounts
- receipt of investment confirmations
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion, and
- Whole of Government Accounts.

We received draft financial statements on 14 June 2013 and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

The key messages arising from our audit of the Council's financial statements are:

- the Council produced good quality draft financial statements, supported by working papers with sufficient detail to enable us to carry out our accounts audit in three weeks
- a small number of disclosure amendments have been made to the financial statements, all of which were agreed by management.
- we have worked with the Council to 'declutter' the statement of accounts to make it more readable to stakeholders whilst ensuring compliance with CIPFA's Code of Practice.

Further details are set out in section 2 of this report.

Value for money (VFM) conclusion
We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further details of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)
A WGA return is required to be completed and audited by 5th October. We will complete our work in accordance with the national timetable. The audit cannot be formally certified as complete until this work is finalised.

Controls

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. We did not identify any significant weaknesses in control.

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

- journal testing identified weaknesses in the control arrangements for authorising and posting journals in the year and as part of the accounts closedown process, and
- bank reconciliations by schools were completed in the final week of March whereas the year end bank position should reconciled as at 31 March.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and 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 have been discussed and agreed with the Corporate Director of Finance and Procurement and the finance team (Appendix A).

Acknowledgment

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.

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 11 April 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any substantive changes to our Audit Plan as previously communicated to you on 11 April 2013. In one or two instances, we altered the planned testing to reflect circumstances.

Employee remuneration audit risks:

- One of the employee remuneration risks identified at the planning stage was documented as remuneration expenses. The risk for Kent County Council has been expanded at the accounts planning stage to be remuneration accruals, ie, the monthly pay of the employee in the 2012/13 year. Work planned to mitigate the risk identified at the planning stage of the audit and reported in our Audit Plan was updated to include testing to confirm that 12 payroll journals were in Oracle and the 2012/13 financial statements.
- Work planned in relation to the employee remuneration at schools included a predictive analytical review. This work has not been undertaken as sufficient assurance over the expenditure at schools, which includes the staff costs, has been obtained through attribute sample testing of the expenditure.
- Work planned in relation to the employee remuneration tax obligations included review of the HMRC returns. This work has not been undertaken as sufficient assurance over Council's tax obligations has been obtained through attribute sample testing of 60 payroll records and confirmation that the tax parameters were correctly set up in respect of the 2012/13 tax year.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

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 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
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • substantive testing on material revenue streams	Our audit work has not identified any material misstatement of revenue in the 2012/13 financial year. Our testing did however identify £9.3m grant income incorrectly recorded within net cost of services. It should be shown as income below 'Cost of Services' within 'Taxation and Non Specific Grant Income'. We set out our finding in detail in the adjustments section of the report.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions]	Our audit work has not identified any evidence of management override of controls. In particular our review of journal controls and testing of journal entries did not identify any significant issues. However, we did identify opportunities to strengthen controls over journals and have set out our findings in the Internal Control section of this report. We set out on page 12 of the report our work and findings on key accounting estimates and judgments.

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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested operating expenses including a sample of 60 operating expenditure items and 60 school returns to confirm expenditure is correctly recorded in the 2012/13 accounts	Our audit work has not identified any significant issues in relation to the risk identified. However, we have identified an area for improvement in relation to the timing of year end bank reconciliations performed by the schools. Further details are set out in the Internal Controls section of the report.
Employee remuneration	Payroll tax obligations understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess if those controls are designed effectively • sample testing of 60 employees to payroll and HR records and 60 expenditure items by schools	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accruals understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess if those controls are designed effectively • sample testing of 60 employees to payroll and HR records • testing to confirm the ledger and accounts include the 12 payroll journals for the 2012/13 year • review of schools compliance team visits (annual audit report to the Governance & Audit Committee in July 2013)	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reviewed the reconciliation of the PPE note to the new asset registers • Tested significant in year movements and the year end balance to ensure disclosure and accounting treatment are correct	Our audit work has not identified any significant issues in relation to the risk identified. As part of the asset register refresh during the year, the Council identified capital expenditure totalling £14.8m in Assets Under Construction (AUC) as at 1 April 2012 that related to spend in prior years on assets that the Council does not own or on schools that have transferred to Academy status. The Council incorrectly treated this as Revenue Expenditure Funded from Capital Under Statute in 2012/13. The correct treatment would be to account for this as a loss on disposal. Further details are set out in the Unadjusted misstatements section of the report.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • Testing of revaluations in year • Reliance on an expert procedures, including reviewing revaluation trends against the auditors' expert	Our audit work has not identified any significant issues in relation to the risk identified. However, the depreciation and impairment charge in 2012/13 disclosed in note 10 and note 15 does not agree. The Council has accounted for an impairment in assets of £31.4m directly to the CIES so this amount is not shown in note 15. The impairment mainly relates to spend in prior years on AUC of £23.4m and capital spend incurred in 2012/13 of £4.3m on assets that have been revalued in year. The remaining £3.8m relates to spend on assets that have not been revalued. The correct disclosure in the accounts is to add the capital spend to the Cost or Valuation section of the note and then remove the spend as an impairment in the Accumulated Depreciation and Impairment section. The Council has chosen not to account for it on this basis as this would require entries to the asset register that do not affect the net book value of the assets or Balance Sheet. An explanation of the Council's accounting treatment has been included in note 10.

Accounting policies, estimates & 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
Revenue recognition	• The Council's main source of income is central government grants and council tax. Grant income is recognised in the Comprehensive Income and Expenditure Statement when the Council has reasonable assurance that it will comply with the grant conditions and that amounts will be received.	• The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2012/13.	●
Judgements and estimates	• Key estimates and judgements include: – useful life of property, plant and equipment – pension fund valuations and settlements – revaluations – impairments – provisions	• 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. • As a result of the audit, the Council has improved the accounting policy for Property, Plant and Equipment (note 15) to disclose in greater detail the valuation policy and useful life of its asset base.	●
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any significant omissions from the Code requirements. • As a result of audit challenge, the Council has improved disclosure of 'critical judgement in applying Accounting Policies ' made in respect of schools accounting treatment (Note 4).	●

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

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process, some of which are trivial in nature and not reported below. We are required to report all misstatements to those charged with governance, whether or not the financial statements 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 below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	**Comprehensive Income and Expenditure Statement and Grant Income (note 14)** The Council has accounted for £9,280k of Revenue Expenditure Funded by Capital Under Statute as being grant funded against service lines in the CIES. Testing has identified that the expenditure is funded by non-grant income and should be disclosed as Taxation and Non Specific Grant Income in the CIES and note 14. The net expenditure has increased by this amount.	9,280	Nil	9,280
2	**Non-distributed costs (CIES)** Redundancy costs totalling £4,887k were incorrectly included in the Non-Distributed Costs line in the CIES. The Code and SERCOP states that redundancy costs should be accounted for against the relevant service line in the CIES. This is a movement within the CIES statement so does not have any impact on the net expenditure. The Council has also amended the 2011/12 CIES.	Nil	Nil	Nil
	Overall impact	**£9,280**	**£Nil**	**£9,280**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. Our audit identified a small number of presentational improvements to the narrative of the disclosure notes which officers have made but we have not separately reported as we consider them trivial amendments to the disclosure.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	24,000	Amounts owed by the Council to creditors (Balance Sheet and Note 25)	The Council is an agent for the Regional Growth Fund money from Central Government. It correctly accounted for the money as cash and creditors in accordance with the Code. However, it incorrectly presented the £24m as short term creditors instead of long term.
2	Disclosure	514	Grant Income (note 14)	There is an inconsistency in the disclosure of income from council tax between the Explanatory Foreword (£580,153k) and note 14 (£579,639k). The difference is the Council's share of the deficit on the collection fund of £514k. Narrative has been included in note 14 to explain the difference.
3	Disclosure	N/A	Earmarked reserves (note 22)	The Council did not include the comparative note for 2011/12 in the financial statements which is required by the Code.
4	Disclosure	N/A	Financial instruments (note 37)	The Council has improved the disclosure in the note. The following numerical amendments have also been made: • disclosure for long term investments in the 'fair values' table as the figures were included against the wrong heading • the current debtors balance in the 'financial assets' table incorrectly included the bad debt provision of £9m and a VAT debtor of £14m • the interest expense amounts in the 'financial instruments gains/losses' table were not shown with a consistent +/- convention within the note which understated the expense.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit but 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 Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1	**Revenue Expenditure Funded from Capital Under Statute (Comprehensive Income and Expenditure Statement)** As part of the asset register refresh during the year, the Council identified capital expenditure totalling £14.8m in Assets Under Construction (AUC) as at 1 April 2012 that related to spend in prior years on assets that the Council does not own or on schools that have transferred to Academy status. The Council incorrectly wrote off this expenditure to Revenue Expenditure Funded from Capital Under Statute (REFCUS) in 2012/13. However, the Council should have accounted for the capital expenditure in relation to these assets as an impairment or loss on disposal when derecognising the assets. The disclosure in note 10 (Adjustments between accounting basis and funding basis under regulations) has been enhanced to separately identify the £14.8m prior year spend. We recommend officers identify all spend in AUC as part of the disposal or transfer of the asset in future years. See management response in the action plan at appendix A.	Nil	Nil	We have not adjusted for the £14.8m AUC to REFCUS figure as this is a change in treatment from previous years and would impact a significant number of lines and notes in the financial statements. However, we have taken on board the audit recommendation and will account for this in the recommended way in future years.
	Overall impact	**£Nil**	**£Nil**	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	Journal testing of in-year and year end closedown journals identified the following weaknesses: • The Council does not sequentially number journals which led to difficulties in confirming that the download of journals from the general ledger was complete • Two journals were posted twice in 2012/13; one of these was a cash posting for £39.5m. This was not identified as a duplicate until the following month as part of the month end cash reconciliation procedures	• The Council should ensure the new journal procedure guidance is implemented fully by all teams to ensure the journals are sequentially numbered in each team
2.	●	School bank reconciliations • Testing of the year end bank reconciliations showed that the schools do not perform the reconciliation as at 31 March. Many bank reconciliations were completed during the last week of March which could lead to a misstatement of the cash balance and increases the risk of unrecorded liabilities.	• The Council should encourage the schools to complete the year end bank reconciliation as at 31 March
3.	●	Capital accounting • The adopted accounting treatment for disposals does not include a review of the expenditure in Assets Under Construction. This has led to write off in the 2012/13 year of £14.8m expenditure as Revenue Expenditure Funded by Capital Under Statute. This treatment could lead to a misstatement of the gain/loss on disposal of non-current assets.	• The Council should ensure that all spend related to an asset is included in its carrying value before the asset is disposed so the true gain/loss is reported

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance and Audit Committee and were not made aware of any fraud that could have a material impact on the financial statements. 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.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council. • In particular, representations will be requested from management in respect of the significant judgement made by management in the changes to its subsidiary companies from 1 April 2013 and for not amending the financial statements for the item identified on page 15 of this report.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. However, the Council has strengthened the narrative in capital accounting related notes to explain movements or accounting treatment. • The Council disclosed in its draft accounts its 100% ownership of a newly formed company, Commercial Services Trading (CST) Ltd from 1 April 2013. This company brings under one umbrella many of the trading activities formerly undertaken by several companies owned by the Council. The Council's Balance Sheet shows that it has a loan of £11.8m to CST Ltd as at 31/03/13. However, the subsidiaries note in the draft accounts disclosed that the Council had transferred £4m of its loan to an investment in redeemable and irredeemable shares in CST Ltd. The Corporate Director of Finance and Procurement has confirmed that the subsidiary note and related party transactions disclosure were wrong and that the £11.8m loan to CST Ltd remains as at 31/03/13.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that the Council has sound processes in place for financial governance, planning and control. It continues to face significant financial pressures to balance its budgets and has started on a journey to transform services to meet increasing demands with reduced funding. The Council is planning to improve its financial monitoring to streamline the report so those responsible for budgets have greater understanding of the current position. We have issued a separate financial resilience report in respect of this work.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. We have not identified any significant weaknesses that impact on our conclusion.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Financial resilience	We have reviewed the Council's arrangements for securing financial resilience in 2012/13, including the medium and long term financial planning, with a focus on specific areas (savings plans and capital expenditure).	A separate financial resilience report setting out the detailed findings of the review will be reported to the Governance and Audit Committee in July 2013. The overall summary against the four arrangements areas we assessed is: • Key indicators of performance – Green • Strategic financial planning – Green • Financial Governance – Green • Financial Control – Green Although there are individual elements that could be strengthened the overall conclusion for each area is there are robust arrangements in place. Recommendations have been made in the financial resilience report.
Savings plans 2013/14 – adults transformation agenda	We have reviewed the robustness of the savings plans from the adults social care transformation project.	The Council has embarked on a significant transformation project for the delivery of adult social care. The Council asked Newton Europe to undertake an initial review of the service to identify improvements in the service. Following the initial work the Council has appointed them as their partner to help transform the current social care provision in Kent on a performance related payments contract. The initial work has identified three key programme areas for the Transformation Partnership Group (TPG) to work on: commissioning; care pathway; and optimisation. Newton Europe has provided high level analysis for these areas and will report back on 22 July 2013 with detailed plans to move the transformation project forward. The Council is also continuing with internal plans for the Health and Social care Improvement Project Board (HASCIP) and Health Monies Group (HMG) with savings plans being led by officers. The Council has ensured that governance arrangements have been effectively set up to support the savings projects. There is an Adult Social Care Transformation Board with a financial monitoring group supporting the Board and TPG chaired by finance officers. There are sufficient arrangements in place to ensure the delivery of projects and financial savings will be monitored. The Council is anticipating significant savings from the baseline budget over the next three years from the TPG, HASCIP and HMG projects. The overall focus for the savings is from enablement improvements. The Council is aiming to stop unnecessary admissions to hospitals because the care package is not providing the correct support and to ensure that the correct care package is created as soon as it is needed. The Council has identified that too often intervention is later than it should be which increases the costs and length of support the customer needs. Early intervention will help transform the service. The Council anticipates that the detailed planning will deliver some financial savings will deliver some financial savings in 2013/14, but acknowledges there is a risk over the quantum of £18m being delivered. It has a number of mitigating actions to address any shortfall. Nevertheless, the saving of £18m being RAG rated as amber in the latest savings report to members is appropriate.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Corporate governance arrangements (joint follow up with Internal Audit)	We have undertaken interviews with corporate directors to understand the focus and effectiveness of the Corporate Board during 2012/13.	The Council established a new 'Corporate Board' comprising Cabinet and Corporate Management Team in March 2012. The Board's function is to achieve the cultural change required to improve collegiate working between members and management. The 2011/12 review by Internal Audit and the Audit Commission concluded that arrangements had been effectively set up. A follow up review has been undertaken by Internal Audit, with interviews of Corporate Directors jointly undertaken with Grant Thornton. We had planned to re-interview Cabinet Members who we met with in the 2011/12 review but this was not possible due to the Council elections in May 2013. Internal Audit has confirmed they will be issuing a report with an overall opinion of 'substantial assurance' for the 2012/13 review. Key findings from the interviews undertaken in March and April 2013 are summarised below: • Corporate Board (CB) worked effectively during the 2012/13 financial year. Interviewees felt that the papers and decisions considered at the meetings are appropriate , with discussions generally focussing on the most important items. • The Leader has a half an hour slot at the start of every meeting to give an update on key strategic issues. He leads discussions but asks all Corporate Directors (CD) to comment on papers and interviewees feel engagement is appropriate. • Corporate Director meetings before CB help to ensure discussions during the meetings are focussed on relevant issues and detailed scrutiny can occur in the most appropriate forum. There have been a small number of instances where papers have gone directly to CB without discussion at CMT or CD meetings first. • There is a clearer focus on the working relationships and responsibilities between CMT and Divisional Management Teams (DMT), with the latter taking service specific decisions. However, there is no formal process of which papers should be reported within the governance structure. It is the responsibility of CDs to decide where the papers are presented to. • Relationships between members and officers remain good. • Performance management of CDs is clearly documented for members to follow. The election in May has had an impact on the appraisal meetings for the 2012/13 year. The performance assessments and meetings are formally documented. Each Corporate Director receives a letter which forms the formal record of the discussion assessment. • Agenda management has improved during the year although interviewees felt this continues to be an area for further focus. All corporate directors felt that the right balance is given to critical papers. • Cabinet committees have been effectively used during the year. There is no indication that urgent key decisions are being made outside of the formal meetings which confirms the new structure is working as planned. • Overall, officers and members agree that the CB structure has improved the culture of the Council and relationships at that level. There is a more collegiate approach to managing the Council which is imperative in the financial climate it faces in future years. The previous silo approach to managing the directorates has eroded and collective thinking has improved.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Risk management arrangements	We have reviewed the Internal Audit report issued in July 2013 which was a follow up to address weaknesses identified in 2011/12.	The Council started to improve its risk management arrangements in 2011/12. A joint review by Internal Audit and external audit in 2012 identified a number of areas for improvement. We have reviewed the follow up audit by Internal Audit in early 2013 and reviewed committee reporting of risk information, including the corporate risk register. The aim of the IA work was to provide assurance that the Council has adequate, robust risk management arrangements in place to support delivery of objectives and the Annual Governance Statement. The overall audit opinion of IA is adequate, an increased rating from the 2011/12 review. The Head of Business Intelligence, Performance and Risk and the Corporate Risk Manager have now been in post for over a year and have put in place sound processes for identifying and monitoring risks across the Council. The team has started to embed the risk management arrangements and recognise that there is more to do to ensure this is consistent across the Council. Policies and procedures are available to all staff on the intranet and the Risk Management Policy refresh was approved by the Governance and Audit Committee in September 2012. A member training session was delivered to the same committee meeting to ensure that members are aware of the policies and major risks facing the Council. Training for officers is still an area for development, although the release of an e-learning risk management package in June 2013 should help to address this weakness if communicated to staff effectively. The risk team has also presented directly to teams that have proactively asked for a workshop during the year. Corporate and directorate risk registers were formalised in 2012/13 across the Council which is an improvement from the previous year. However, IA found that at a divisional level the registers are still inconsistently used. The Corporate risk Team undertook quality reviews of all directorate and divisional risk registers in April-May 2013 and results will be reported back to Directorate Management Teams. Officers intend to build into future training and guidance the key themes identified from the reviews. The Council implemented a new risk system, GRACE, during the 2012/13 year. All risk registers have been loaded onto the system. The system is intended to be a 'live' register and updated regularly to reflect the changing environment of the Council and the risks associated with a service at any time. This has the potential to equip managers and members with up to date information to take timely corrective action. It is too early to assess the effectiveness of this system in managing the risks of the Council. Corporate risks are included in the quarterly performance report to Cabinet and Corporate Board. The report is also reviewed and challenged by the Performance Evaluation Board. The reporting of risks to the Governance & Audit Committee is undertaken twice yearly for assurance purposes.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Performance management arrangements	We have reviewed the Internal Audit report issued in May 2013 which was a follow up to address weaknesses identified in 2011/12.	The Council made improvements to its performance management arrangements in 2011/12. A joint review by Internal Audit and external audit in 2012 identified a number of areas for improvement. We have reviewed the follow up audit by Internal Audit in early 2013 and reviewed committee reporting of performance information. The aim of the IA work was to ensure that the Performance Management Framework is effective, including the underlying processes for collecting, reviewing and ensuring the quality of data. The overall audit opinion of IA is substantial. The 'Bold Steps for Kent' sets out the vision and key priorities for Cabinet and the County Council. There are 16 priorities in the 'Delivering Bold Steps' document, supported by projects/programmes the Council is currently or planning to undertake in the future, and quarterly and annually collected performance indicators. The Council developed a corporate suite of 30 key performance indicators (KPIs) to measure progress against priorities in its vision. Where possible, the KPIs are reported to Cabinet via quarterly performance reports. The quarter four performance report was presented to Cabinet in June 2013. This reported that of the 30 KPIs the RAG rating for 2012/13 was: 14 green, 11 amber, and five red. Of the five red, majority of these had showed improvement during the year and the Cabinet recognised that these were stretch targets. There are clear action plans in place to improve the red indicators. The Council recognises that the information reported at directorate level needs to be improved and appropriate action has been taken during the year. Each directorate has performance indicators linked to their business plan which is the method used for monitoring performance at divisional and directorate management teams. The Council enhanced the reporting at this level by creating directorate dashboards with performance indicators being approved by the relevant Cabinet Committee. However, on some occasions in the early stages of reporting, IA found there was some inconsistency between information presented in the corporate and directorates' dashboards. Where these are identified, an update is reported at the next meeting. In addition, not all directorates are effectively using the Performance Information Definition forms. IA testing identified that some forms did not have an accountable officer for the KPI and that not all officers at directorate level were aware of the forms. There is a low risk that KPIs are not being collected or analysed consistently across the Council. In addition, the rationale for targets set are not clearly documented. A best practice example was identified in Specialist Children's Services and this method should be rolled out across the Council.

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Children's services re-inspection by Ofsted	We have reviewed the summary and detailed reports published by Ofsted in January 2013 to determine whether the 'except for' conclusion can be removed.	In 2010/11 Ofsted's inspection of the Council's safeguarding children and young people services and services for looked after children raised significant concerns about operational practice (which is outside of the scope of external audit) and aspects of the Council's 'proper arrangements'. This led to an 'except for' VFM Conclusion for the past two years. The inspection highlighted weaknesses in the Council's arrangements for: • producing relevant and reliable data and information to support decision making and manage performance; and • planning, organising and developing the workforce effectively to support the achievement of strategic priorities. Ofsted carried out an unannounced re-inspection of the Council's arrangements for the protection of children and young people in November 2012 and published its findings on 15 January 2013. Ofsted's overall conclusion is the service is now "adequate". The report commented positively on progress made since the 2010 inspection and reported that no children were found to be at risk of immediate significant harm. The adequate rating means that Kent provides a service that meets minimum requirements. Further improvement work is still required . The Council's response was reported to members in June 2013. The Council requested a new improvement notice. Our review of the inspection report and discussions with officers has enabled us to remove the 'except for' conclusion for the 2012/13 VFM Conclusion . The Council has effectively addressed the two areas of concern : • Data quality – Ofsted concluded the Council "*has a comprehensive approach to gathering and analysing performance data and has used this to drive improvements* ". The report also comments on the wide range of practice audits the Council has undertaken and the positive learning from these. However, Ofsted does identify weaknesses in that there is not an overarching programme or strategy for the audits. The new improvement notice does not include any specific data-driven targets but the Council has decided to continue to report the County scorecard to ensure that improvements in data since 2010 are maintained. Specialist Children's Services has developed a new Quality Assurance Framework which refreshes the previous policy and captures the comprehensive and holistic nature of the approach the Council is seeking to take to move the service forward. These actions sufficiently address the 2010 weaknesses. • Workforce – the report concludes "*A workforce development strategy has reduced vacancy rates through a range of initiatives including overseas recruitment and a 'grow our own' policy. While there remain significant difficulties in recruiting suitably qualified and experienced staff to some posts and some areas, the Council has adopted an appropriately determined stance, preferring to employ good locum staff rather than appointing weak candidates to permanent posts. It has also taken a robust stance on poorly performing staff, a number of whom have now moved on from their posts*." The Council has taken sufficient action to address the critical workforce weaknesses from 2010. The Council's adoption services were also inspected in March 2013 by Ofsted. The report published on 18 June 2013 concluded that the overall service provided is adequate. Three of the areas reviewed were adequate and 'leadership and management' was assessed as good.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	207,900	207,900
Grant certification	6,250	6,250
Total audit fees	**214,150**	**214,150**

Fees for other services

Service	Fees £
Regional Growth Fund claim audit	4,000

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- The mother of the in-charge auditor is a teacher in an academy school. Although there is no impact on the audit opinion as she is not employed by the Council we have put safeguards in place so the auditor does not undertake the audit of the Teachers' Pensions Return; and
- The mother of a trainee auditor involved in the audit is a teacher at a LA maintained school. The mother is employed on a consultancy basis so is not on the Council's payroll. However, as the mother receives a pension we have put safeguards in place so the auditor does not undertake the audit of the Teachers' Pension Return

Neither of the above disclosed auditors undertook work during the accounts audit that would impact on our independence. We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 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 the Audit Commission (www.audit-commission.gov.uk).

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. 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 Audit Commission and includes nationally prescribed and locally determined work. 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. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

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	The Council should ensure the new journal procedure guidance is implemented fully by all teams to ensure journals are sequentially numbered in each team.	Low	Agreed - the journal procedures are in place.	With immediate effect - Chief Accountant
2	The Council should encourage schools to complete the year end bank reconciliation as at 31 March.	Medium	Agreed - will liaise with Schools Financial Services to encourage the year end bank reconciliation as at 31 March.	By 31 March 2014 - Chief Accountant
3	The Council should ensure that all spend related to an asset is included in the carrying value before the asset is disposed so the true gain/loss is reported.	Medium	We will ensure that any spend included within assets under construction that relates to assets being disposed of is taken into account in the calculation of gain / loss on disposal.	For 2013/14 statement of accounts - Capital Finance Manager

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

Opinion on the Authority financial statements

We have audited the financial statements of Kent County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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 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, and for being satisfied that they 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 explanatory foreword to identify material inconsistencies with the audited financial statements. 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:
give a true and fair view of the financial position of Kent County Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Matters on which we report by exception

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the 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 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. 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 had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Kent County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Delay in certification of completion of the audit

We are required to give an opinion on the financial statements of the pension fund included in the Pension Fund Annual Report of Kent Superannuation Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2013. As the authority has not yet prepared the Annual Report we have not yet been able to read the other information to be published with those financial statements and we have not issued our report on those financial statements.

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.
Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Darren Wells

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

Grant Thornton
Fleming Way
Manor Royal
Crawley
RH10 9GT

24 July 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We set out changes to the Audit Plan in the Audit Findings section of the report on page 8.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	Yes – risk updated to be 'accruals understated'	We identified an internal control weakness in the year end bank reconciliation process undertaken by schools.
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings			No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	The accounts have been amended to include £9,280k of capital grants and contributions that were incorrectly shown as grant income against the service lines in the CIES.
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	No material issues identified. However, recommendation made to improve accounting for disposals to include review of expenditure in assets under construction. This is unadjusted misstatement of £14.8m in the accounts.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	No material issues identified. However, the Council has improved the narrative within the capital accounting notes to explain consistency between entries, particularly the accounting treatment of impairments that are not shown in note 15.
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	The RGF money was included in short term creditors. This money is not due to be paid out within the next 12 months so should be classified as long term.
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None

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