

The Audit Plan for Kent County Council

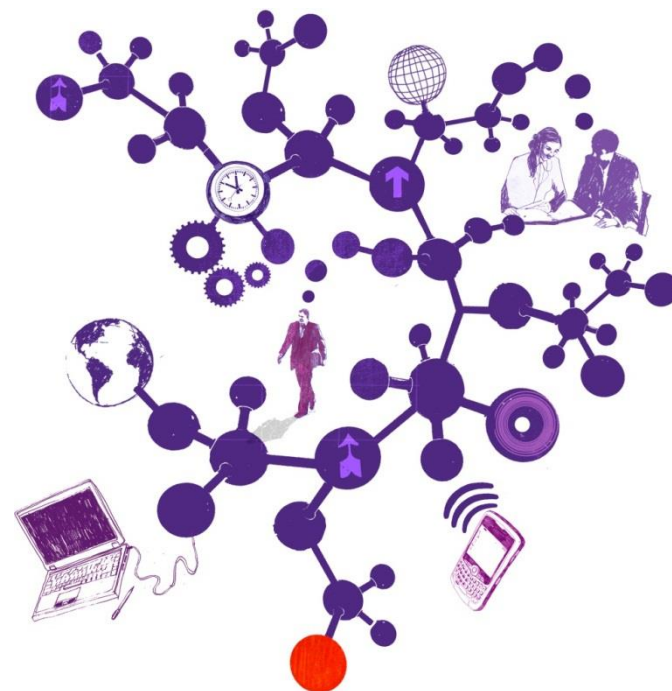
Year ended 31 March 2014

April 2014

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

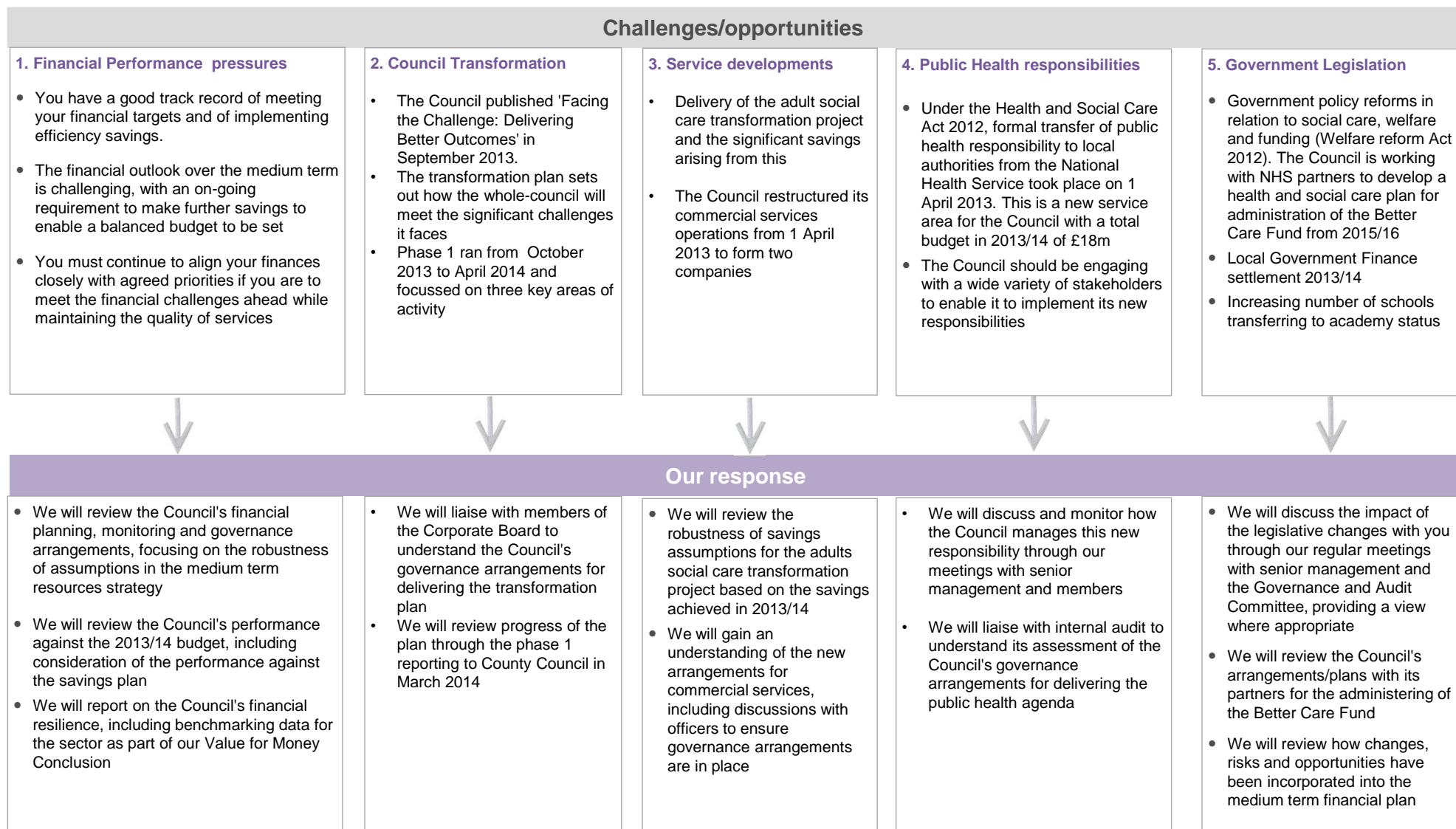
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Understanding your business

In planning our audit we need to understand the challenges and opportunities you are facing. We set out a summary of our understanding below.



Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

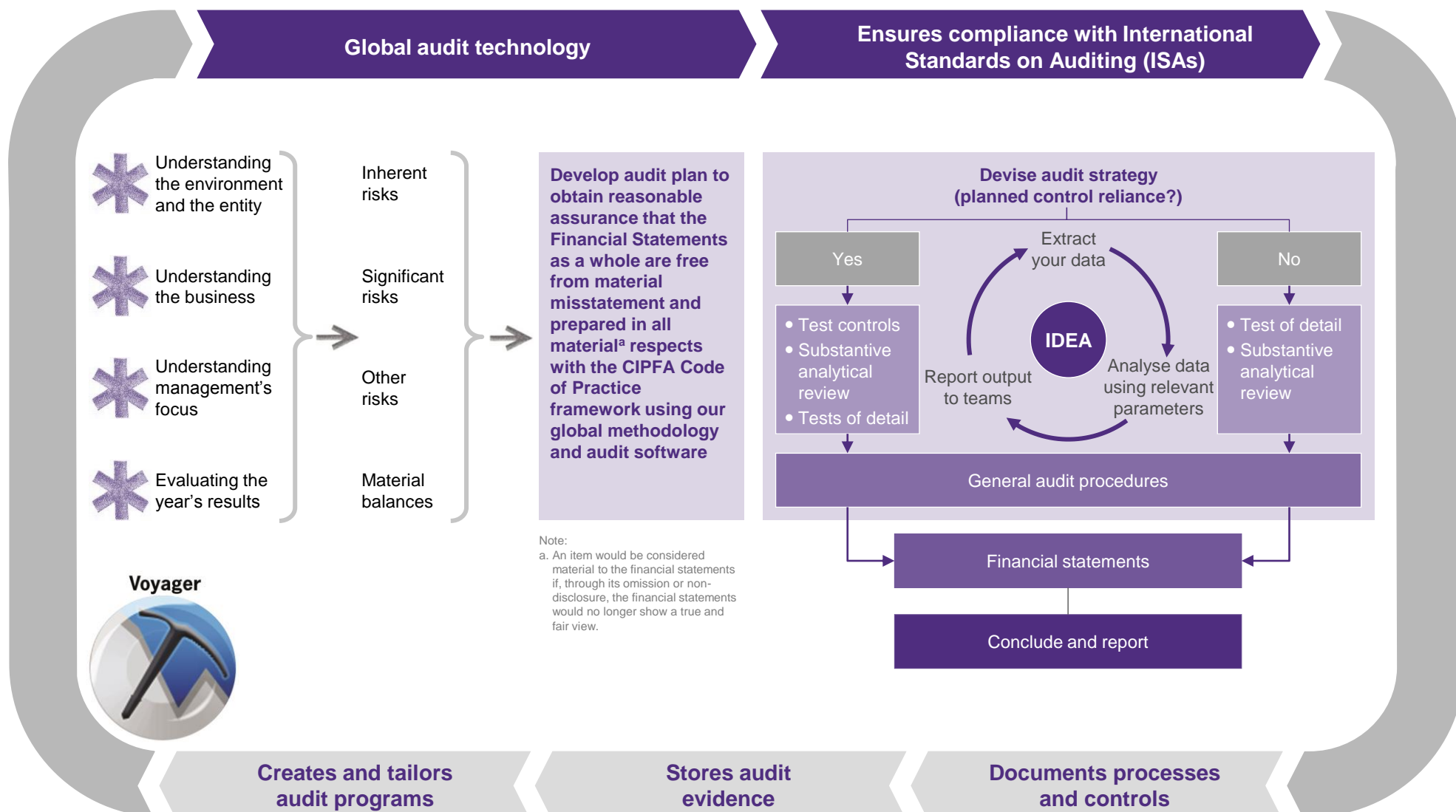
Developments and other requirements

1. Financial reporting	2. Legislation	3. Corporate governance	4. Pensions	5. Financial Pressures	6. Other requirements
<ul style="list-style-type: none"> • Changes to the CIPFA Code of Practice • Clarification of Code requirements around PPE valuations • Recognition of grant conditions and income • Transfer of assets to Academies 	<ul style="list-style-type: none"> • Local Government Finance settlement • Welfare reform Act 2012 	<ul style="list-style-type: none"> • Annual Governance Statement (AGS) • Explanatory foreword 	<ul style="list-style-type: none"> • The impact of 2013/14 changes to the Local Government pension Scheme (LGPS) • The impact of the triennial actuarial valuation of the pension fund in 2014/15 	<ul style="list-style-type: none"> • Managing service provision with less resource • Progress against savings plans 	<ul style="list-style-type: none"> • The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion • The Council completes grant claims and returns on which audit certification is required

Our response

<p>We will ensure that</p> <ul style="list-style-type: none"> • the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing • schools are accounted for correctly and in line with the latest guidance • grant income is recognised in line with the correct accounting standard 	<ul style="list-style-type: none"> • We will discuss the impact of the legislative changes with you through our regular meetings with senior management and those charged with governance, providing a view where appropriate 	<ul style="list-style-type: none"> • We will review the arrangements you have in place for the production of the AGS • We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge 	<ul style="list-style-type: none"> • We will review how you dealt with the impact of the 2013/14 changes through our meetings with senior management • We will review the impact of the triennial valuation on the pension fund 	<ul style="list-style-type: none"> • We will review your performance against the 2013/14 budget, including consideration of performance against the savings plan • We will undertake a review of Financial Resilience as part of our VFM conclusion 	<ul style="list-style-type: none"> • We will carry out work on the WGA pack in accordance with requirements • We will certify grant claims and returns in accordance with Audit Commission requirements
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Our audit approach



Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	Work completed to date: <ul style="list-style-type: none">• Testing of material revenue streams for months 1 to 8 of the financial year Work planned: <ul style="list-style-type: none">• Review and testing of revenue recognition policies• Testing of material revenue streams for months 9 to 12
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	Work completed to date: <ul style="list-style-type: none">• Testing of journal entries for months 1 to 8 of the financial year• Review of unusual significant transactions Work planned: <ul style="list-style-type: none">• Review of accounting estimates, judgments and decisions made by management• Testing of journal entries for months 9 to 12 and closedown journals• Review of unusual significant transactions

Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none">• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified with the specific system controls or processes• We have performed sample testing of payments (months 1-8)	<ul style="list-style-type: none">• We will perform sample testing of payments made in the financial year (months 9-12) to gain assurance that expenditure has occurred and has been correctly classified• We will perform a completeness check of expenditure data by comparing the trial balance to GL download reports received in the period• We will test for unrecorded liabilities in the period• We will perform cut-off testing on a sample of creditors spanning the end of the financial year to ensure they have been classified in the correct accounting period
Employee remuneration	Employee remuneration accrual understated	<ul style="list-style-type: none">• We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were identified with the specific system controls or processes• We have performed sample testing of payroll records (months 1-8)	<ul style="list-style-type: none">• We will review the reconciliation of the payroll system to the general ledger, including trend analysis for the financial year• We will perform sample testing of payroll records (months 9-12) to gain assurance that employees have been remunerated correctly during 2013/14

Other risks identified (continued)

Other risks	Description	Work completed to date	Further work planned
Property, Plant & Equipment	PPE activity not valid	<ul style="list-style-type: none"> We have identified the controls in the PPE system 	<ul style="list-style-type: none"> We will perform a walkthrough of the PPE system to gain assurance that the in-year controls were operating in accordance with our documented understanding. This will be carried out in early June 2014 before the draft financial statements are received We will test the reconciliation of the General Ledger figures to the Asset Register We will carry out substantive testing on a sample of additions, including a review of the capital programme expenditure We will review the policy for non-enhancing capital expenditure and sample test revenue expenditure funded from capital under statute
Property, Plant & Equipment (PPE)	Revaluation measurement not correct	<ul style="list-style-type: none"> We have identified the controls in the PPE system We have held discussions with the finance team to understand the revaluation method to be adopted and contacted the external valuer, Montagu Evans, to understand their expertise in providing the assurance to management 	<ul style="list-style-type: none"> We will perform a walkthrough of the PPE system to gain assurance that the in-year controls were operating in accordance with our documented understanding. This will be carried out in early June 2014 before the draft financial statements are received We will review the reconciliation of the valuation report to the asset register and accounts We will perform assurance procedures over the work of the external valuer as an expert We will consider any changes in the valuation of property, plant and equipment and investment properties and ensure these changes are appropriate and correctly accounted for in the disclosure notes

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we have considered:

- the effectiveness of the internal audit function
- internal audit's work on the your key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- the operation and effectiveness of the controls in place over the processing and authorisation of journals

	Work performed	Conclusion/ Summary
Internal audit	<ul style="list-style-type: none">• We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.• We have met with the internal auditors regularly during the year to understand the scope of their work and to liaise on joint areas of work.• We have reviewed reports issued by Internal Audit during the year.	<ul style="list-style-type: none">• Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.• Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Walkthrough testing	<ul style="list-style-type: none">• Walkthrough tests were completed in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements. These areas were:<ul style="list-style-type: none">- Employee Remuneration- Operating Expenses- Plant, Property & Equipment	<ul style="list-style-type: none">• No significant issues were noted for the Payroll or Operating Expenses systems. The walkthroughs have been completed and in-year internal controls were observed to have been implemented in accordance with our documented understanding. Our work has not identified any significant weaknesses which impact on our audit approach.• Plant, Property and Equipment walkthrough is planned for June 2014 due to the amount of year-end controls in the system.• We will gain further assurance in these areas through substantive audit testing of year end balances.
Review of Information Technology Controls	<ul style="list-style-type: none">• Our information systems specialist will perform a high level review of the general IT control environment as part of the overall review of the internal controls system. We will also perform a follow up of the issues that have been raised in the previous year.	<ul style="list-style-type: none">• Work is due to take place in April 2014 and we will report on our findings upon completion in the Audit Committee Update Report.

Results of interim audit work

	Work performed	Conclusion/ Summary
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>To date we have undertaken detailed testing on journal transactions recorded for the first eight months of the financial year, by extracting 'unusual' entries for further review.</p> <p>No significant issues have been identified that we wish to highlight for your attention. We reported in the 2012/13 Audit Findings Report that journals were not sequentially numbered. Standard procedures have been communicated to all staff raising journals and we will report our audit findings following the full year testing as to the implementation of the policy.</p>	<p>We have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements from the journal procedures.</p> <p>We will complete the in year and closedown journals testing during the accounts audit visit in June 2014.</p>
Early substantive testing	<p>We have undertaken early substantive testing in the following areas:</p> <ul style="list-style-type: none"> • sample testing of payments for months 1-8 • sample testing of payroll records for months 1-8 • sample testing of income for months 1-8 <p>Our work has not identified any significant issues which we wish to bring to your attention.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p> <p>We will undertake further sample testing for payments, payroll records and income during our April 2014 audit visit and will complete testing, to cover the rest of the financial year, at the accounts audit visit in June 2014.</p>

Value for money

Value for money

The Code requires us to issue a conclusion on whether you have 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

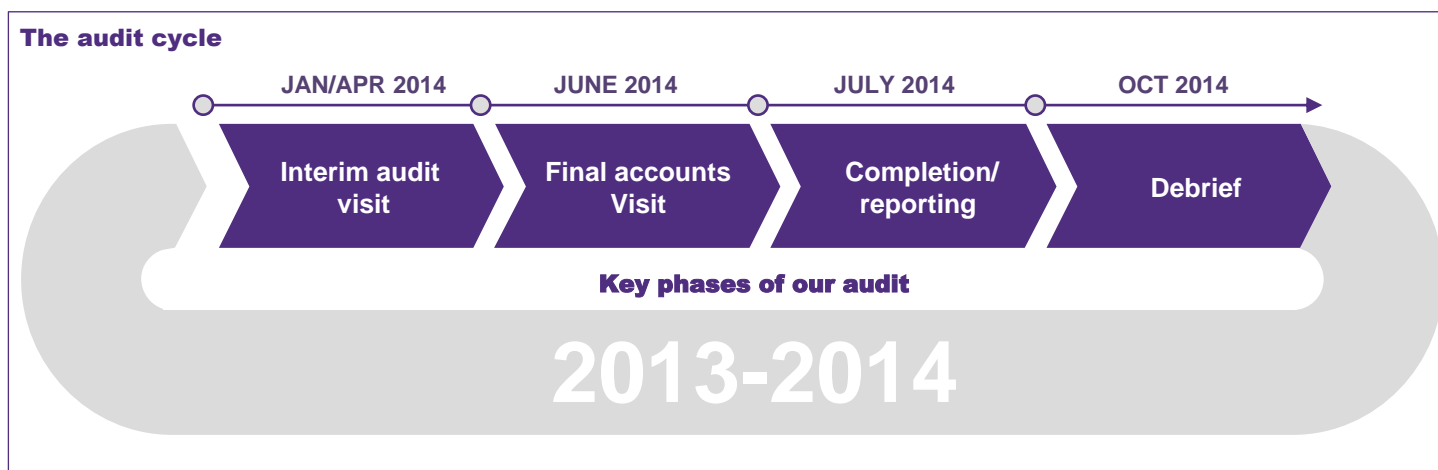
VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- review and update our risk assessment agreed during our 2012/13 financial resilience review to reflect the up to date position on arrangements relating to key indicators of financial performance, financial governance, strategic financial planning and financial control
- review the budget setting process for 2014/15 and the achievement of savings in 2013/14, including the savings from adults transformation project
- review the governance arrangements put in place to successfully deliver the Facing the Challenge transformation plans, including the decision making of phase 1 as reported to County Council
- understand the new arrangements for commercial services
- review the progress made against any recommendations made as a result of the 2012/13 financial resilience review

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter. We will also issue a Financial Resilience report. We will agree any additional reporting with you on a review-by-review basis.

Key dates



Date	Activity
January 2014	Planning
January and April 2014	Interim site visits
30 April 2014	Presentation of audit plan to Governance and Audit Committee
16 June – 4 July 2014	Year end fieldwork
w/c 7 July 2014	Audit findings clearance meeting with management
24 July 2014	Report audit findings to those charged with governance
24 July 2014	Sign financial statements opinion and vfm conclusion
End September 2014	Issue Whole of Government Accounts certificate

Fees and independence

Fees

	Fees £
Council audit	207,900
Grant certification *	4,700
Total	212,600

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- You will make available management and accounting staff to help us locate information and to provide explanations

Fees for other services

Service	Fees £
Certification of Regional Growth Fund and TIGER 2013 claims	6,500
Certification of Initial Teacher Training 2012/13 claim	3,500

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 as potential threat to independence:

- The mother of an auditor involved in the 2013/14 audit 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

* The grant certification scale fee is £6,250 per the 2013/14 fee letter dated 17 April 2013. Due to the reduction in the number of claims certified by external audit in 2012/13 the actual fee was reduced to £4,700 by the Audit Commission. We have assumed this reduced fee is the scale for 2013/14 certification but are awaiting final confirmation from the Audit Commission as the audit of the Teachers' Pensions Return may alter for 2013/14.

Communication of audit matters with those charged with governance

International Standards 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan 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 your 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 issue 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		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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