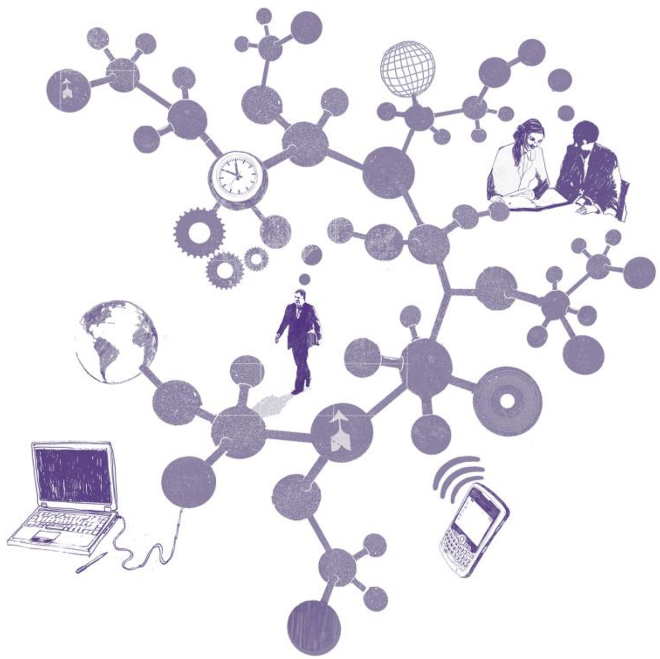
The Audit Findings for Kent County Council

Year ended 31 March 2014

24 July 2014



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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	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	18
4. Fees, non audit services and independence	25
5. Communication of audit matters	27

Appendices

A Action plan

B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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 2014. It is also used to report our audit findings to officers 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 April 2014.

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

- testing of operating expenditure and receivables owed to the Council
- direct confirmation of investment and loan balances held at 31 March
- review of PFI scheme disclosures
- receipt of outstanding member and officer related party declarations
- review of the final version of the Annual Governance Statement
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements on 13 June 2014 and accompanying working papers at the start of our audit on 17 June 2014, in accordance with the agreed timetable. The accounts submission is earlier than most councils achieve.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). The draft and audited financial statements record net expenditure of £1,018,629k. We have identified a number of adjustments to improve the presentation of the financial statements. With the odd exception, all of these have been accepted by officers and are reflected in the revised statement of accounts presented to the Governance and Audit Committee meeting on 24 July.

The Council produced good quality draft financial statements supported by comprehensive working papers and officers have responded positively to additional requests for evidence to enable us to carry out the majority of audit work in the three week onsite visit.

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

Whole of Government Accounts (WGA)
We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. The work is planned for September 2014 and the audit certificate will be issued after we have audited the WGA consolidation pack.

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.

Our work has not identified any control weaknesses which we wish to highlight for your attention.

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 small number of recommendations, which are set out in the action plan in 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.

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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 30 April 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan previously communicated to you on 30 April 2014.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion as 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. 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 • testing of material revenue streams	Our audit work has not identified any issues in respect of revenue recognition. We did however identify two disclosure errors in note 14 Grant Income which officers have amended. We set out our findings in detail in the 'Misclassifications and Disclosures changes' section of this 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 journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section 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 potential 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 • performed sample testing of payments made in the financial year to gain assurance that expenditure has occurred and has been correctly classified • performed a completeness check of expenditure data by comparing the trial balance to GL download reports received in the period • tested for unrecorded liabilities in the period • performed 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.	Our audit work to date has not identified any significant issues in relation to the risk identified. Some of our testing is still in progress at the time of preparing this report. We will verbally update the committee at its meeting on 24 July following completion of the work.
Employee remuneration	Employee remuneration accrual 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 whether those controls are designed effectively • reviewed the reconciliation of the payroll system to the general ledger, including trend analysis for the financial year • performed sample testing of payroll records to gain assurance that employees have been remunerated correctly during 2013/14.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of potential 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 • tested the reconciliation of the General Ledger figures to the Asset Register • performed substantive testing on a sample of additions, including a review of the capital programme expenditure • reviewed the policy for non-enhancing capital expenditure and sample test revenue expenditure funded from capital under statute.	Our audit work has not identified any significant issues in relation to this potential risk and PPE is materially correct. We identified the following presentational issues: • A number of schools transferred to academy status during the year. These had been correctly written out of the balance sheet and property, plant and equipment (note 15). However, the note did not include an explanation of the transfer which is around £100 million of disposals and the corresponding loss on disposal of transferring at nil value. • Note 15 : The 'assets under construction' opening balance included £11.7m in respect of capital expenditure in prior years on assets not owned by the Council. Any capital expenditure on assets not owned by the Council should be expensed in the year through the Income and Expenditure Statement. The Council has corrected the £11.7 million to ensure the year end balance of 'Assets under construction ' is materially correct. The Council has agreed that for future capital expenditure on assets it does not own will be expensed in the year in accordance with the Code.
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 the whether those controls are designed effectively • reviewed the reconciliation of the valuation report to the asset register and accounts • performed assurance procedures over the work of the external valuer as an expert • considered 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.	Our audit work has not identified any significant issues in relation to this potential risk and PPE is materially correct. The Code of Practice requires councils to value all assets within an class simultaneously as at the 31 March. The Council has not followed this approach. However it has demonstrated that this would not result in a material misstatement to the value of property, plant and equipment at the year end. We agreed with officers that its decision to not follow the Code should be disclosed as a critical judgement in the accounts. We agreed the following enhancements to the disclosure note for assets: • The 'valuation of property, plant and equipment carried at current value' disclosure should only show the valuations for the rolling programme period: 2009/10 to 2013/14. Investment properties have been removed from the note. • An explanation has been added to note 15 for the 'other movements in cost or valuation' balance as these include unusual entries.

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.	• Overall, the Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2013/14. • We agreed an amendment to the Council's collection fund accounting policy and its accruals of income and expenditure policy to disclose fully the policies adopted by the Council.	● Green
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. • We have identified disclosure enhancements to the following estimates: – IAS19: there has been a change in accounting policy for the pension fund disclosures and the 2012/13 figures have been restated for these changes. The narrative has been updated to adequately reflect the restated figures and explain the impact of the new accounting standard.	● Green
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 issues in the policies selected by the Council. • However, a small number of policies have been updated following review by audit. This includes disclosing a new accounting policy for public health.	● Green

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. We are required to report all misstatements to the Governance and Audit Committee, whether or not the financial statements have been adjusted by officers. The table below summarises the adjustments arising from the audit which have been processed by officers. None of the adjustments impact on total net expenditure.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000
1	**Balance sheet - Debtors (and note 24):** The debtors balance was overstated by £58 million and cash understated by the same amount. The draft accounts assumed schools owed this amount to the Council in respect of school payroll expenditure. The error occurred as the monthly schools payroll direct debit was not posted correctly in the ledger during the year. The cash has been received by the Council throughout the year but this was not treated as remitted cash in the ledger. This error was not picked up through the schools payroll bank reconciliation process.	Nil	Cash: Dr 58,000 Debtors: Cr 58,000
2	**Balance sheet - Creditors (and note 25):** The creditors balance is overstated in respect of two misstatements: • The Council made a manual payment via CHAPS totalling £21.768 million to pay creditors due to a backlog in processing highways maintenance invoices. However, when the highways system was updated to enter the invoice this resulted in a duplicate creditor being raised. The year end creditor balance includes £21.768k million of invoices that had been paid before 31 March 2014. We are satisfied this error has not impacted on the income and expenditure account. • Two BACS payment runs totalling £11.162 million had been processed for payment at the end of March 2014 and recorded in the general ledger, but the payment had not cleared through the bank account as at 31 March. As part of the year end bank reconciliation process the Council treated the BACS payments as cash in transit and manually adjusted the creditors and cash Balance Sheet position. This manual adjustment has been carried out by the Council for a number of years. The corresponding entry to creditors is the overstatement of the cash balance.	Nil	Creditors: Dr 32,930 Cash: Cr 32,930
3	**Grants (note 14):** An amount of £6. 5million in the opening balance of Capital Grants Receipts In Advance relates to projects that have finished and were funded by other capital expenditure. As such this amount is not 'receipts in advance' and should be accounted for as a usable reserve – Capital Grants Unapplied.	Nil	Capital Grants Receipts In Advance: Dr 6,530 Capital grants unapplied: Cr 6,530
	Overall impact	**£ Nil**	Total Current Assets: Cr £50,423 Total Current Liabilities: Dr £50,423 Total Long Term Liabilities: Dr 6,530 **Net Assets: Dr 6,530** **Total Reserves: Cr 6,530**

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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	8,887	Adjustments between accounting basis and funding basis under regulations (note 10)	We identified inconsistency between related notes to the accounts. Note 10 shows £106,502k for 'Amount of Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES' and the same disclosure in note 21 'the Capital Adjustment Account ' is £115,389k. The difference of £8,887k relates to the disposal proceeds against the Capital Receipts Reserve. The Council has amended note 10 to classify the amount as part of the Non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES total. In addition, a number of amendments have been made to the capital grants entries in note 10 to ensure consistency with the Capital Adjustment Account.
2	Disclosure	n/a	Explanatory Foreword	The explanatory forward should be used to paint a high level story of the accounts and major changes in the year for the reader . There have been a number of key changes such as retirement benefits (IAS19), school transfers and taking on public health responsibilities that are not referenced in the forward. The Council has amended the IAS19 analysis and will consider the need for fuller disclosure in future years. In our view, the Explanatory Foreword meets the minimum requirements of the Code.
3	Disclosure	n/a	Comprehensive Income and Expenditure Statement	The 'Service Reporting Code of Practice' sets out the disclosure requirements for the cost of services in income and expenditure statement. The disclosure in the draft accounts did not follow the Code. Officers have amended the accounts to comply with the Code.
4	Disclosure	n/a	Critical judgements in applying accounting policies (note 4)	The Council has amended the note to include the following additional judgements: • the number of schools and the carrying value that are currently being sponsored to transfer to Academy status in 2014/15 • the consideration given to quantitative and qualitative characteristics in deciding that the Council does not need to produce group accounts in 2013/14.
5	Disclosure	n/a	Officers Remuneration (note 6)	A small number of changes have been made to the figures reported in the disclosure for the remuneration paid to senior employees. The parameters of the Greenbury report used to compile the note were not complete.

Misclassifications & disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
6	Disclosure	34,322	Grant Income (note 14)	The 'Other DFES grants' total was overstated in the note as the Education Funding Agency grant of £34,322k was double counted. There is no impact on the grant income in the Comprehensive Income and Expenditure Statement as the error was only in the disclosure note.
7	Disclosure	n/a	Pension Costs	Note 36a: The note has been updated to reflect the transfer of NHS employees to the Council as part of the public health responsibilities. These staff are with the NHS pension agency. Note 36b: The 2012/13 pension costs for the defined benefit scheme have been restated to reflect the changes to IAS19 for 2013/14. An additional table has been added to the note to disclose the figures before and after the change in accounting policy. Note 36b is now shown as restated. Two disclosure headings were out of date and have been updated for the Code requirements.
8	Disclosure	n/a	Financial instruments (note 37)	A number of amendments have been made to the Financial Instrument note to enhance disclosure: • a table disclosing the comparison between the carrying and fair value of the PFI liability • the split of long term investments in the fair value calculation table of available for sale assets and unquoted equity investments as only available for sale assets can be measured at fair value.
9	Disclosure	n/a	Annual Governance Statement	A small number of amendments have been made to the Annual Governance Statement to meet the requirements of CIPFA's Delivering Good Governance framework.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve officers' decision not to amend the items recorded below:

Detail	CIES £'000	Balance Sheet £'000	Reason for not adjusting
Property, Plant and Equipment (note 15) The Council has made a critical judgement that £31,057k within the AUC opening balance and £6,209k of in year capital expenditure, a total of £37,266k, relating to spend on assets that have been revalued in 2013/14 should not be added to the asset register as an addition in 2013/14 as this would be overstating the value of the assets in the Balance Sheet. The Code requires assets to be revalued ignoring construction works. Once construction is complete, the costs should be transferred to land and buildings and then valued. There should be no impairment against the AUC costs. The Council has accounted for this expenditure as an 'impairment charge where assets have been revalued in year' in note 10 (Adjustments between accounting basis and funding basis under regulations) and in note 15 as 'impairment losses recognised in the surplus/deficit on the Provision of Services' which does not comply with the Code requirements to account for the capital expenditure as a downward revaluation. There is no impact on the CIES or Balance Sheet. The misstatement is between the Revaluation Reserve (RR) and Capital Adjustment Account (CAA) as currently the £37,266k is accounted for through the CAA. If the Code was followed, it is likely that an element of the £37,266k would go to the RR. This accounting treatment has also impacted on the AUC accumulated depreciation opening balance. This should be nil for 2012/13 and 2013/14. Note 15 has been amended to include an additional disclosure of £26,624k for 2012/13 and £31,057k in the 'other movements in cost or valuation' line to ensure the opening balance is fairly stated. However, based on the above explanation of the unadjusted misstatement these entries would not be required if the Council followed the Code in respect of AUC and valuations. The Council has revised its accounting treatment for capital spend on assets during 2013/14 which will remove the AUC to impairment accounting entry in future.	Nil	Nil	We adopted this accounting policy to mitigate the double counting that would occur if we followed the Code. This was due to the respective timing of our revaluations and additions from assets under construction. To mitigate the double counting, we impaired the value of assets under construction for revalued assets as the value is likely to be within the revaluation. This issue was raised last year and we agreed to change our practice by adding the value in assets under construction to the asset at the end of the year **prior** to the asset being revalued, where such value is significant. However, we have always said that we would not be able to adjust for assets under construction held at 31 March 2013 for assets valued in 2014 as the books were closed. Our proposal was accepted for this, particularly as it doesn't impact the primary statements. To make the changes required would involve a significant amount of work and the risk of making errors to statements already audited is high. It is unlikely that £37,266k would go to the RR as stated, as it would be split between impairment, a reduction in the RR and additions to the RR, depending on the revaluation of the individual asset.
Overall impact	**£ Nil**	**£ Nil**	

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 in April 2014 and no issues were brought to our attention that impacted on the audit at the planning stage. We have not been made aware of any incidents or issues since this date and during the course of our accounts audit that impact on the audit opinion.
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 letter of representation has been requested from the Council. The unadjusted misstatement identified in the accounts has been attached as an appendix to the letter. • We have requested specific representations in respect of the critical judgement in respect of the valuation approach adopted for 2013/14 and confirmation that the Net Book Value of Property, Plant and Equipment is fairly stated as at 31 March 2014.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
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

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

These criteria are:

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 reviewed the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

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

Overall our work highlighted 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 adopted 'Facing the Challenge' as a programme to transform services to meet increasing demands with reduced funding.

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 completed the following high level reviews:

- Prioritising resources; and
- Understanding costs.

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 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The tables below and overleaf, summarise our overall rating for each of the themes reviewed. These were identified as a risk in the Audit Plan and the summary findings below address the risk '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.'

Theme	Summary findings	RAG rating 2013-14
Key indicators of performance	• We have reviewed six key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group. The review considered the following: liquidity; borrowing; workforce; performance against budgets; reserve balances; and schools balances. • Overall the ratio analysis has shown a relatively positive outlook for the Council and although outliers were identified these are understood by the Council and are monitored as part of the quarterly budget reports to Cabinet.	**Green** **(2012-13 Green)**
Strategic financial planning	• The Council has robust strategic financial planning arrangements in place. The Council's Medium Term Financial Plan (MTFP) is set for the period 2014-17 and takes account of the directorate and service business plans for the 2014/15 year. There are strong links between the MTFP and the Council's key priorities over the challenging transformation period. • The Council started the budget planning for 2014/15 early in the 2013/14 financial year to allow sufficient time for consultation on difficult decisions it may face. The Council undertook extensive consultation and reported the outcome of the feedback as part of approving the final budget for the year.	**Green** **(2012-13 Green)**
Financial governance	• The Council has sound financial governance arrangements. There is a robust process for setting the budget and identifying significant annual savings . • Cabinet members are engaged and have a good understanding of the financial environment the Council operates in. Training has been provided for new members of the Governance & Audit Committee to ensure they are well equipped to carry out the responsibilities of the committee. • Financial health indicators are reported as part of the detailed quarterly revenue and capital budget monitoring to Cabinet although these generally report the financial position at the end of the month and are not forward looking.	**Green** **(2012-13 Green)**

Theme	Summary findings	RAG rating 2013-14
Financial control	• The Council has well established financial control arrangements in place with the 2013/14 reported underspend being the 14th consecutive year of managing the budget effectively. Savings totalling £270m have been made over the three year period 2011/12 to 2013/14 with a further £81m identified in the 2014/15 budget. Without strong financial control, this significant challenge could not have been achieved. • The Project Initiation Document (PID) process has been fully reinstated for the 2014/15 budget setting. However, due to the changes in the directorate structure not all PIDs have been submitted to central finance at the end of June 2014 when the planned deadline was 1 May 2014. For effective management of the budget, and to ensure savings are delivered as planned, the Council should ensure all PIDs are received as part of the budget planning process. • The Council has effective finance and internal audit teams which are well placed to help the Council move forward in the difficult financial environment. • The risk management arrangements have improved during the year through the positive approach taken to using the GRACE system for recording and updating risks in 'real' time. Training has been provided and the system is actively used although it is recognised that some divisions are stronger at this than others.	**Green** **(2012-13 Green)**
Prioritising resources	• The Council has clearly identified its strategic aims and objectives as part of Facing the Challenge in July 2013. There is strong leadership from the Corporate Board . The Council has considered ways of making savings in 2014/15 through non-statutory functions and following consultation has allocated budget resources to meet the needs of the public whilst balancing the budget. There is an understanding by the Council of the impact on services and users on the decisions it has to makes.	**Green** **(Not reported in 2012/13)**
Improving efficiency & productivity	• The Council continues to focus on the unit costs of the demand led services. Unit cost information for adults and children's services, and for the Social Fund, are reported quarterly to Cabinet, with a small number of other costs. The Council has recognised there is more to do to develop a wider understanding of costs and the central finance team has worked with budget holders during the year to raise awareness of unit costs and their responsibilities in monitoring costs at this level. • 'Facing the Challenge' is the plan for whole Council transformation over a three year period. The Council recognised that the levels of savings needed in the future could not be delivered in the standard way used previously and a major change was needed. This programme's aim is to improve efficiency and productivity. During the 2013/14 year the Council successfully completed phase 1. This was the review of 12 frontline and corporate services to determine a preferred option of delivery model for the future. The Council is now entering into phase 2. This is a highly ambitious programme for the future vision of the Council.	**Green** **(Not reported in 2012/13)**

The table below summarises our findings and overall ratings for the risks identified in the Audit Plan dated April 2014.

Risk area	Summary findings	RAG rating
Review the budget setting process for 2014/15 and the achievement of savings in 2013/14, including the savings from adults transformation project	We reviewed the budget setting process for 2014/15 , including the Medium Term Financial Plan 2014-17 and reported our findings against the Strategic Financial Planning characteristic set by the Audit Commission. A summary of our findings is on page 20 of this report. We reviewed the financial outturn and savings achieved in 2013/14, including savings from adults transformation project, and reported our findings against the Financial Control characteristic set by the Audit Commission. A summary of our findings is on page 21 of the report. The detailed findings and recommendations are reported separately in our 'Report on Value for Money' for the year ended 31 March 2014.	**Green**
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	The County Council approved Facing the Challenge: Whole Council Transformation in July 2013. The Transformation Plan has been designed around three key themes: Market Engagement and Service Review; Integration and Service Redesign; and Managing Change Better. Each theme has a clear timetable for delivery as set out in the plan. The Council will deliver the transformation over three phases with phase 1 being delivered September 2013 to April 2014 and then phases 2 and 3 by April 2015 and 2016 respectively. There are 12 services included in phase one from frontline and corporate support services. The net budget for market review for these services is £98m. The Council is using a review team of in-house service improvement managers and external advisors that have experience of delivering change programmes. It needs to ensure it builds capacity, knowledge and skills within the Council for the successful delivery of the transformation agenda in the longer term without the continual need for external support. The governance arrangements for Facing the Challenge were set out in the 'Delivering Better Outcomes' report approved at the County Council meeting in September 2013. Five groups have been identified at a strategic level that form the governance of the programme. The aim is for the groups to shape and drive the transformation agenda. Their role is to ensure Facing the Challenge is delivered effectively and efficiently. The different layers of the governance arrangements should ensure the Council meets the financial and policy objectives. The five groups are: Members/County Council; Transformation Board; Leader (Cabinet Member for Transformation); Corporate Directors; and Transformation Advisory Group (TAG).	**Green**

Risk area	Summary findings	RAG rating
(continued) 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	The Council's decision-making framework is set out in the Constitution. This places responsibility for strategic decisions with Members and responsibility for the delivery or implementation of the decisions with officers. Individual key decisions will be in the standard way, through Cabinet Committees. The Legal and Democratic services team are responsible for ensuring that when key decisions relating to transformation are made, advice is provided on whether any further key decisions will be required to implement the Member decision. This arrangement should ensure that change can occur at the required pace and that transformation is not delayed due to poor planning. To support the whole scale programme a Corporate Programme Office has been set up. This is a dedicated team who work with the individual programme managers to ensure all key decisions are made in a planned and robust way. The work of the office is important to underpin good governance and the Council should ensure this is used effectively to support the transformation. A report to County Council in March 2014 updated all members on the governance arrangements and set out the success of these in providing a basis for the phase one delivery. The Transformation Board has met during the period and TAG meets weekly with both groups focussed on monitoring progress against the three themes. The Council recognises lessons learnt from phase 1 and is open about the challenges it faces as it moves to the next phase. The Facing the Challenge transformation team have met the agreed deadlines for delivery of Phase 1 market engagement and service reviews. The report to County Council in May 2014 informed members that all review activity has been successfully completed and the preferred option to proceed to the next stage has been identified for all but one area where there are clear reasons for the delay. The next stage of the process is for phase one reviews to proceed to full business case development. The Council was an early volunteer for the Local Government Association (LGA) Corporate Peer Challenge. As part of the review, the team looked at the Council's approach to transformation with a focus on the robustness of plans, the management of risk and supporting the required cultural change. The arrangements were found to be robust. The recommendation from the review in respect of developing implementation plans alongside the full business case has been agreed by the Council as necessary for it to benefit from new service delivery models as quickly as possible.	

Risk area	Summary findings	RAG rating
Understand the new arrangements for commercial services.	The Governance and Audit Committee Trading Activities sub-committee received a report in March 2014 setting out progress on the changes to the arrangements for commercial services. The new arrangements, set up from 1 April 2013, were a response to an external review in 2011 that recommended improvements were made to the governance arrangements. The Council simplified the corporate structure from 1 April 2013 to operate Commercial Services trading from two legal entities: Commercial Services Kent Ltd and Commercial Services Trading Limited . These are both wholly owned by Kent County Council through an intermediary holding company – Kent County Trading Limited. Commercial Services Kent Limited has been set up to trade exclusively with the Council as a Teckal compliant company under a managed service arrangement (mainly providing energy and education services). Commercial Services Trading Limited has been set up with the intention of trading with the wider public and private sectors. As part of the simplified arrangements, the Council also reduced the number of business units from 26 to five to enable the business units to be managed more effectively going forward. A joint Company Board has been established for the two limited companies. The Board comprises: three Non-Executive Directors (NED) , one of whom is the Chair (and has the casting vote); and from Commercial Services - the Managing Director; Chief Operating Officer; Group Finance Director; and Planning Director (who has no voting rights). The Council appointed the NEDs as independent members of the Board which gives greater transparency to the decision making. Two of three NED positions were appointed by March 2014 and the third one has recently been appointed. The Board meets eight times a year. In addition to the Board, two sub-committees, Remuneration and Audit, were established in January 2014 and will meet quarterly. The Council's Head of Internal Audit is a member of the Audit Committee. The Council identified in early 2013 that it needed to improve the governance and accountability between itself and the companies. It developed an agreement between the Council, the companies and its Directors. These agreements were adopted at the Shareholder Board (comprising the Head of Paid Service, Corporate Director of Enterprise & Environment, section 151 officer and three Cabinet Members) meeting in December 2013, after many weeks of negotiation with the Directors of the Company. The findings have been rated as amber as the assessment period covers the 2013/14 financial year. Although robust arrangements for the governance of commercial services is in place by the end of the year, these were not in place throughout the financial year. The improvements made to the arrangements were mainly from January 2014.	Amber
Review the progress made against any recommendations made as a result of the 2012/13 financial resilience review	The Council has made progress against all four recommendations in 2012/13 financial resilience report. Not all of the recommendations are fully implemented yet but sufficient work has been undertaken to demonstrate there are adequate arrangements in place to address issues. In summary: • Long term borrowing continues to be monitored as part of the treasury management arrangements and reported as part of the key performance indicators in the quarterly budget monitoring reports. • The Medium Term Financial Plan 2014-17 includes horizon scanning for a three year period. • Unit costing is now reported for the Social Fund in the quarterly budget monitoring reports in addition to the costing for adults and children's, including asylum, which are seen as the key areas for demand led services. • Risk management arrangements have been embedded through the use of GRACE system during the year.	Green

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	207,900	207,900
Grant certification	4,700	0
Objection work in relating to 12/13	0	1,695
Total audit fees	**212,600**	**209,595**

Grant certification

The Audit Commission has removed the Teachers' Pension Return from the list of grants covered by the certification arrangements. Therefore, the fee for grant certification in 2013/14 has not been charged as we are not auditing the return under the Code of Audit Practice arrangements.

Objection work relating to 2012/13

We undertook an investigation in the year into an objection made in respect of the 2012/13 financial statements. Upon conclusion of our work, we certified the closure of the 2012/13 financial statements in July 2014.

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
Review of residential price increases	7,220

Independence and ethics

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

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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
Significant deficiency – risk of significant misstatement
Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should enhance the Explanatory Foreword to reflect the changes to the Council and accounting treatments in the financial year.	Medium	Agreed – the foreword will be reviewed and enhanced	By 31 March 2015 – Chief Accountant
2	The schools payroll direct debit should be processed through the ledger as remitted cash on a monthly basis. This should be confirmed through the schools payroll bank reconciliation process and followed up if variances are identified.	High	Agreed – a review of the process will be undertaken to ensure that the direct debits are processed through the ledger on a monthly basis and that the schools payroll bank reconciliation is undertaken on a monthly basis. Ensure that responsibility for this process is clearly identified.	With immediate effect – Assessment & Income Manager and HRBC Development & Control Manager
3	The Council should update its rolling programme of asset valuations to ensure that all assets within a class are valued simultaneously.	High	There has been no change to the Code and the Code states "a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date". We believe that we conform to this. However, we will review the tranches that we value on an annual basis and will ensure that the assets not revalued are not materially different at the balance sheet date.	Capital Finance Manager

Appendix B: Audit opinion

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

Opinion on the Authority financial statements

We have audited the financial statements of Kent County Council for the year ended 31 March 2014 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 2013/14.

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Kent County Council as at 31 March 2014 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 2013/14 and applicable law.

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 October 2013, 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 2014.

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 October 2013, 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 2014.

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 Pension Fund. The Local Government Pension Scheme (Administration) Regulations 2008 require authorities to publish the Pension Fund Annual Report by 1 December 2014. 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. 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.

Also, 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.

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

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24 July 2014

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