

Governance and Audit Committee Update for Kent County Council

Year ended 31 March 2014

September 2014

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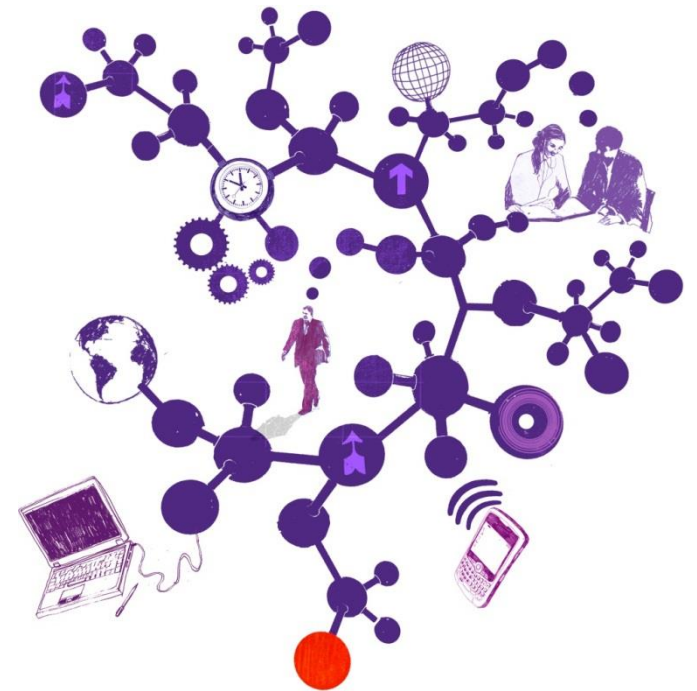
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Introduction

This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Governance Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 15 September 2014

Work	Planned date	Complete?	Comments
<p>Overview:</p> <p>We have substantially completed the 2013/14 audit as reported to the last meeting of the Audit and Governance Committee. The only remaining items to complete before issuing the audit certificate are: review of the pension fund annual report; completion of whole of government accounts return; and following up contact made by a local government elector to determine if there are any issues we need to consider as part of the 2013/14 audit year.</p> <p>Looking ahead to the 2014/15 audit, we are pleased to introduce Paul Hughes as your new engagement lead. Paul has 20 years' public sector audit experience and has worked with a wide variety of English local government and NHS bodies. He is currently engagement lead at LB Barnet and his previous clients include Manchester City Council and Leeds City Council. Paul is Grant Thornton's Public Sector Governance Lead and is responsible for producing the firm's national reports on corporate governance in local government and the NHS.</p> <p>Paul and Liz look forward to working with the Council over the next few years.</p>			
<p>2013-14 Audit Fee Letter We prepare a fee letter annually setting out the audit and grants certification work fee for the year.</p>	<p>March 2013</p>	<p>Yes</p>	<p>We presented the fee letter to this committee in April 2013.</p>
<p>2013-14 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2013-14 financial statements.</p>	<p>April 2014</p>	<p>Yes</p>	<p>We agreed separate accounts audit plans for the Council's financial statements and the Pension Fund accounts and presented them to the committee in April.</p>

Progress at 15 September 2014

Work	Planned date	Complete?	Comments
<p>Interim accounts audit</p> <p>Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	January and April 2014	Yes	<p>We undertook early substantive testing to reduce the pressure on officers and audit at the accounts visit.</p> <p>We held monthly meetings with Internal Audit to discuss potential audit issues and fraud investigations. There were no issues arising that impacted on our audit opinion.</p>
<p>2013-14 final accounts audit</p> <p>Including:</p> <ul style="list-style-type: none"> • audit of the 2013-14 financial statements • proposed opinion on the Council's accounts. 	June - July 2014	Yes	<p>We had monthly meetings with the Head of Financial Management and Chief Accountant during the year.</p> <p>We received the draft accounts on 13 June 2014 and undertook a three week audit visit from 16 June. We presented the Audit Findings Report to you at the July committee meeting.</p> <p>We issued an unqualified audit opinion on the Council's and Pension Fund accounts on 24 July 2014.</p>
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013-14 VfM conclusion is based on the reporting criteria specified by the Audit Commission.</p> <p>Our review focused on arrangements relating to financial governance, strategic financial planning and financial control.</p>	June - July 2014	Yes	<p>We set out the specific areas we planned to review in our 2013/14 Audit Plan. We undertook the audit work in June and July and reported our VfM findings against the specific risks in the Audit Findings Report. We issued a separate detailed VfM Report setting out our findings from the financial resilience review to you in July 2014.</p> <p>We issued an unqualified VfM Conclusion on 24 July 2014.</p>

Progress at 15 September 2014

Work	Planned date	Complete?	Comments
Whole of Government Accounts (WGA) We are required to audit the Whole of Government Accounts return on behalf of the National Audit Office.	September 2014	No	We are currently planning the WGA audit and will complete the testing and certification by the 3 October 2014 deadline.
Other activity undertaken			
Alternative Delivery Models Our Head of Real Estates and Assets, Chris Shepherd, from our Government and Infrastructure Advisory team, facilitated a workshop in August 2014 for officers to understand a range of issues associated with establishing Alternative Delivery Models. The event helped officers to understand the different options available to them for delivering services in new ways in line with Facing the Challenge.			
Non-audit work - Social Care price increases review Our LG advisory team undertook a data quality review and validation of the costs of residential care based on provider statements received during the 2013/14 year. The review ensured the Council had an understanding of the validity of the costs and price increases.			
LG networking event We are currently planning the second LG Audit Committee Chair and Vice-Chair networking event in Kent and will send out invitations to members shortly. The event will be held in the autumn.			

Code changes – have your say

Accounting and audit issues

At the end of July, CIPFA/LASAAC released the [2015/16 Code of Practice on Local Authority Accounting in the United Kingdom](#) (the Code) Exposure Draft (ED) and Invitation to Comment (ITC) for public consultation. The changes proposed in the ITC include:

- IFRS 13 fair value measurement: the proposed approach would result in remeasurement of property, plant and equipment assets that do not provide service potential for the authority. IFRS 13 also applies to assets and liabilities covered by those IFRS standards that currently permit or require measurement at fair value (with some exceptions) and will have an impact on the reporting of, for example, financial instruments and investment properties.
- Other amendments to IFRSs: including the accounting treatment of pensions' contributions
- IFRIC 21 Levies (ie levies imposed by governments)
- changes to UK GAAP particularly relating to Heritage Assets
- other minor and drafting amendments.

The consultation closes on Friday 10 October 2014.

Challenge questions

- Has the finance team reviewed the proposed amendments and assessed the potential impact?
- Has the Council considered whether it wishes to respond to the consultation?

LAAP Bulletins

CIPFA have also issued the following LAAP Bulletins:

- [LAAP bulletin 99](#) Local Authority Reserves and Balances – provides guidance on the establishment and maintenance of local authority reserves and balances.
- [LAAP bulletin 100](#) Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17 – provides an outline project plan to help authorities looking to develop their own project plans for the implementation of the 2016/17 Code requirements for accounting for infrastructure assets.

Challenge questions

- Has your finance team reviewed the guidance and assessed the potential impact for your authority?
- Has the Council started to implement a project plan for accounting for transport infrastructure assets?

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' was published in September 2014.

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assess the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

Hard copies of our report are available from your Engagement Lead or Engagement Manager.

Anti - fraud and corruption update

Grant Thornton

Key current issues include:

Corruption risk - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that audit committees were unable to fulfil the function of reducing risks in many authorities.

Non-benefits fraud - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

Our Forensic Investigation Services provide a range of services to local authorities including fraud prevention and detection. If you are interested in a further discussion on these areas please contact your Engagement Manager.

Managing council property assets

Local government guidance

The Audit Commission has issued its briefing paper **Managing Council Property Assets: Using Data from the VFM Profiles**

In the paper the Audit Commission:

- advocates that councils should be active and strategic managers of their estates – understanding property markets and asking questions about the properties they own or lease,
- prompts councils to consider whether assets are in the right place, whether they should keep, sell, or transfer them, and how much they should invest in building, buying and maintaining property,
- invites local authorities to balance the value realised through sales of surplus assets, against the cost of maintaining them.

The background to the briefing is the collation of information from the government's capital outturn return which identifies that the local government estate has a net book value of £169.8 billion of which £2.5 billion have been classified as 'surplus' assets. In this context the Audit Commission is calling on councils to ensure they have a strategic approach to managing these assets, in order to get the best value for money they can from this portion of the local government estate. The Audit Commission Chair, Jeremy Newman said:

"we are neither advocating that local government starts a wholesale sell-off of their land and property nor are we suggesting councils shouldn't spend money on buying assets or on investment to improve their existing property. What we are highlighting is a group of assets that do not provide immediate benefit to local communities, but still require councils to spend money on maintaining them. These assets have potential value for councils. While not all such land or buildings may be sellable, councils should consider how much value they gain from surplus assets and how this could be increased. I urge councils to use the data held in the Commission's 'Value for Money (VFM) Profiles Tool', such as spending on and value of land and property assets and 'surplus' assets, alongside their unique and detailed local knowledge, to regularly review if their estate is fit-for-purpose."

Challenge question

- Are members satisfied that the Council has adequate management arrangements in place to ensure its property assets are being efficiently and effectively managed?

The National Fraud Initiative

Local government guidance

On 12 June 2014 the Audit Commission released its national report, **The National Fraud Initiative (NFI): National Report (June 2014)** highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .

Challenge question

- Are members satisfied that the Council's support for the NFI's data matching exercise is adequate and that local data matches are being properly investigated to identify potentially fraudulent activity?



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