

The Audit Plan for Kent County Council

Year ended 31 March 2015

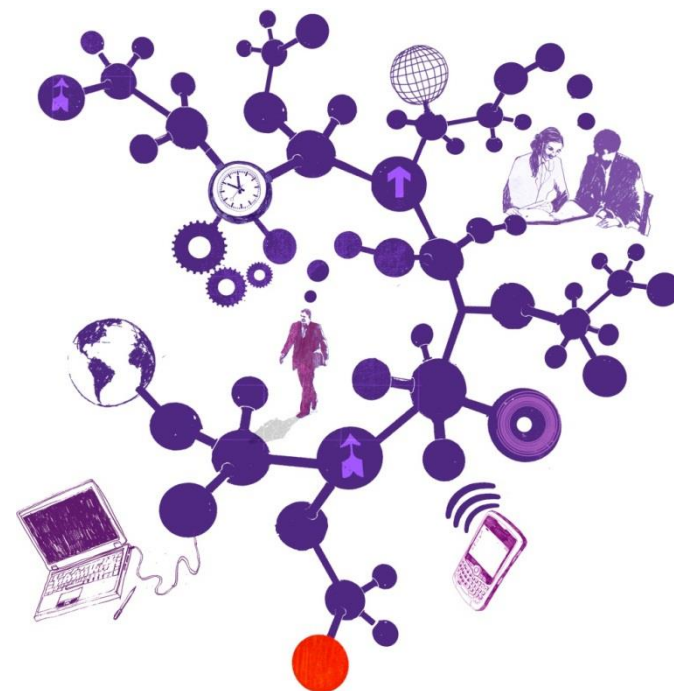
29 April 2015

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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 the Council is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Council transformation

- The Council's Facing the Challenge programme is transforming the way the Council delivers its services whilst continuing to cut its budget
- Development of local authority trading companies to deliver services differently
- Partnership working with other bodies and the voluntary sector.



2. Procurement and Commissioning

- Delivering efficiency savings through improved procurement
- Moving from the provision to the commissioning of services.



3. LG Finance Settlement

- You have a good track record of meeting your financial targets and of implementing efficiency savings
- The local government spending settlement showed local authorities are facing a cash reduction in their spending power of 6% in 2015-16
- At the same time local authorities are facing increasing demands for school places and adult social care services.



4. Collaborative working with the NHS

- Development of new working arrangements to deliver the Better Care Fund
- NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.



Our response

- We will carry out a review of the accounting entries in your financial statements of your Local Authority Trading Companies (LATCs)
- We will review progress in delivering the Facing the Challenge transformation programme as part of our financial resilience work.

- We will review the progress you have made in delivering your efficiency savings in the adults and children's transformation projects as part of our work on your arrangements for financial resilience.

- We will review the Council's financial planning, monitoring and governance arrangements, focusing on the robustness of assumptions in the medium term resources strategy as part of our financial resilience work.

- We will discuss your plans in these areas through our regular meetings with senior management and those charged with governance, providing a view where appropriate.

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

- Changes to the CIPFA Code of Practice
- Changes to the recognition of school land and buildings on local authority balance sheets
- Adoption of new group accounting standards (IFRS 10,11 and 12)

2. Corporate governance

- Annual Governance Statement (AGS)
- Explanatory foreword.

3. Better Care Fund

- Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015.

4. Financial Pressures

- Managing service provision with less resource
- Progress against savings plans.

5. Other requirements

- The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion.

Our response

We will ensure that

- the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing
- schools are accounted for correctly and in line with the latest guidance
- the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly.

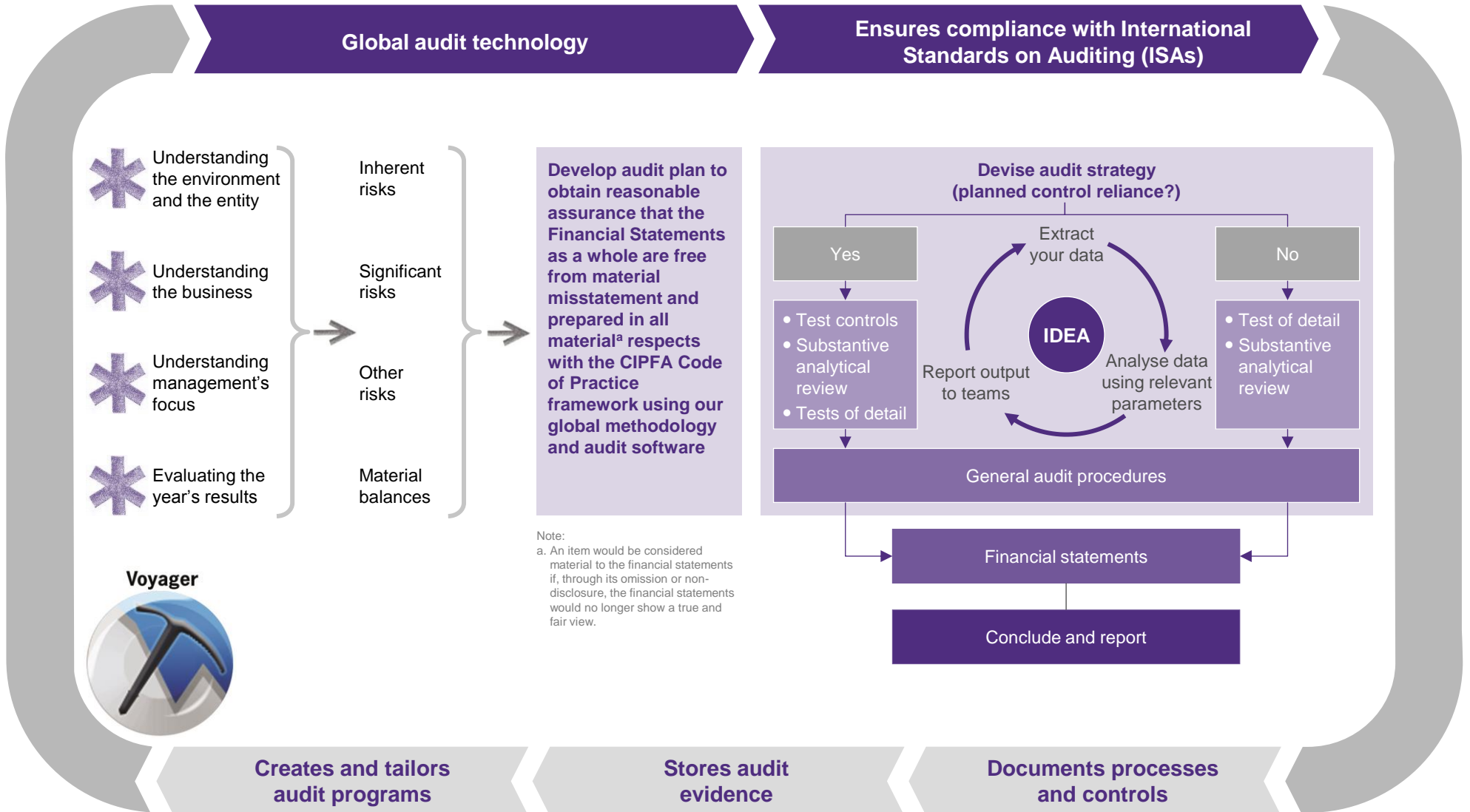
- We will review the arrangements the Council has in place for the production of the AGS and compare to good practice identified in our annual LG governance review
- We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge.

- We will consider whether the BCF is a risk in the context of our VfM conclusion and will carry out further work if required.

- We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan
- We will undertake a review of Financial Resilience as part of our VfM conclusion.

- We will carry out work on the WGA pack in accordance with requirements.

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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Kent County Council , we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition as the Council is predicting a year end surplus • opportunities to manipulate revenue recognition are very limited due to the nature of majority of income being from central government grants • the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Discussions about the proposed accounting estimates, judgments and decisions to be made by management • Testing of journal entries up to month 9 of the 2014/15 financial year <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries for months 10-12 and closedown period • 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 risks	Description	Audit Approach
Operating expenses	Creditors related to core activities understated or not recorded in the correct period (Completeness)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls • Testing of payments made during months 1 to 9 of the financial year <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of payments made during months 10 to 12 of the financial year • Testing of year end creditors • Testing for unrecorded liabilities
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Completeness)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls • Testing of payroll records for months 1 to 9 of the financial year <p>Further work planned:</p> <ul style="list-style-type: none"> • Testing of payroll records for months 10 to 12 of the financial year • Reconciling the total pay per the payroll system to the general ledger • Perform a trend analysis of the payroll expenditure in the 2014/15 accounts

Other risks identified cont'd

Other risks	Description	Audit Approach
Property, Plant and Equipment (PPE)	PPE activity not valid (valuation)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls • Discussion with officers about the accounting changes for schools in 2014/15 <p>Further work planned:</p> <ul style="list-style-type: none"> • Substantive testing of entries in the PPE notes • Verify the capital programme to the additions recorded in the asset register in the financial year
Property, Plant and Equipment (PPE)	Revaluation measurements not correct (valuation)	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Identification and walkthrough of controls • Discussion with officers about the valuation approach in 2014/15 <p>Further work planned:</p> <ul style="list-style-type: none"> • Review the reconciliation of the valuation report to the asset register and accounts • Perform assurance procedures over the work of the external valuer as an expert • 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

Value for money

Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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 2013/14 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 2015/16 and the achievement of savings in 2014/15, including the savings from adults and children's transformation projects
- review the governance arrangements put in place to successfully deliver the Facing the Challenge transformation plans
- review the progress made against any recommendations made as a result of the 2013/14 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 issue a separate report in respect of VfM.

Results of interim audit work

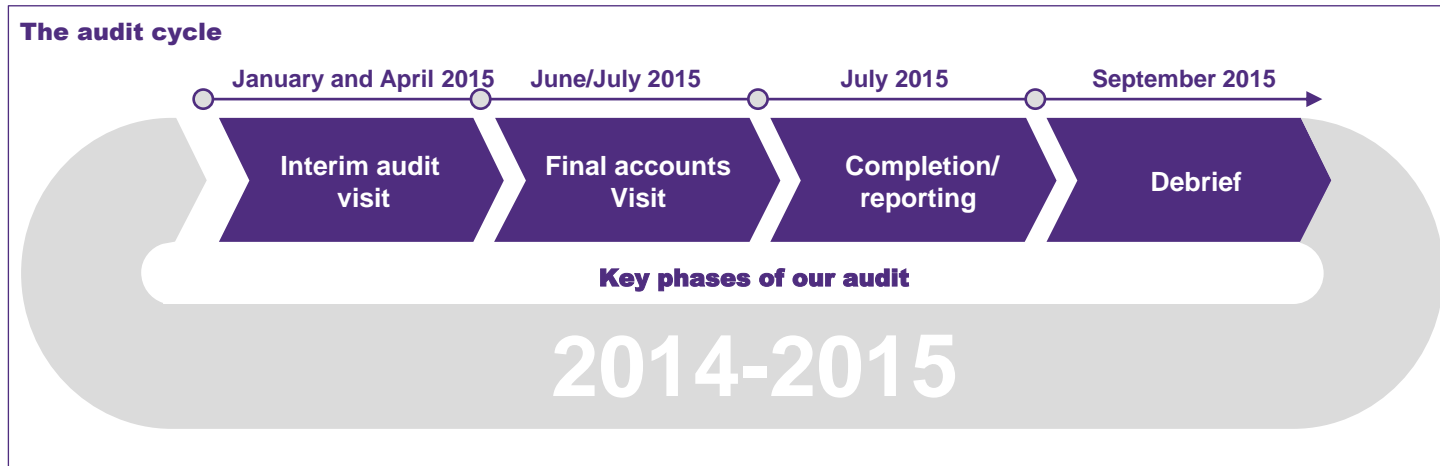
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have reviewed internal audit's overall arrangements against the Public Sector Internal Audit Standards. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>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.</p> <p>The Institute of Internal Audit has undertaken a compliance review against the PSIAS's during March 2015. The draft report has been received and confirmed that the Council is compliant with the requirements.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

Results of interim audit work cont'd

	Work performed	Conclusion
Review of information technology controls	Our information systems specialist will be performing 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 were raised last year.	Our work is in progress and we will report any significant issues arising in the Audit Findings Report.
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 nine months of the financial year, by extracting 'unusual' entries for further review. No issues have been identified that we wish to highlight for your attention.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> <p>We will complete journals testing for months 10 to 12 and closedown journals at the accounts audit visit.</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 to 9 • sample testing of payroll records for months 1 to 9 • sample testing of income for months 1 to 9 	<p>Our work to date has not identified any significant issues which we wish to bring to your attention.</p> <p>We will complete the remaining testing at the accounts audit visit.</p>

Key dates



Date	Activity
January 2015	Planning
April 2015	Interim site visit
29 April 2015	Presentation of audit plan to Audit Committee
w/c 15 June to 6 July 2015	Year end fieldwork
w/c 10 July 2015	Audit findings clearance meeting with Corporate Director of Finance and Procurement
23 July 2015	Report audit findings to those charged with governance
23 July 2015	Sign financial statements opinion

Fees and independence

Fees

	Fees £
Council audit	207,900
Total fees (excluding VAT)	207,900

Our fee assumptions include:

- 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
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

Fees for other services

Service	Fees £
Audit of Initial teacher training claim	3,500
Compliance review of TIGER funding scheme in Dec 2014	12,000
Audit of Expansion East Kent RGF claim	3,250
Audit of Infrastructure RGF claim	950

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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.

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.

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 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.

	Audit plan	Audit findings
Our communication plan		
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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