

Governance and Audit Committee Update for Kent County Council

Year ended 31 March 2016

January 2016

Paul Hughes

Engagement Lead

T +44 (0)7860 282 763

E paul.hughes@uk.gt.com

Nicholas White

Senior Manager

T +44 (0)207 728 3357

E nicholas.j.white@uk.gt.com

Laura Leka

Assistant Manager

T +44 (0)1293 554 083

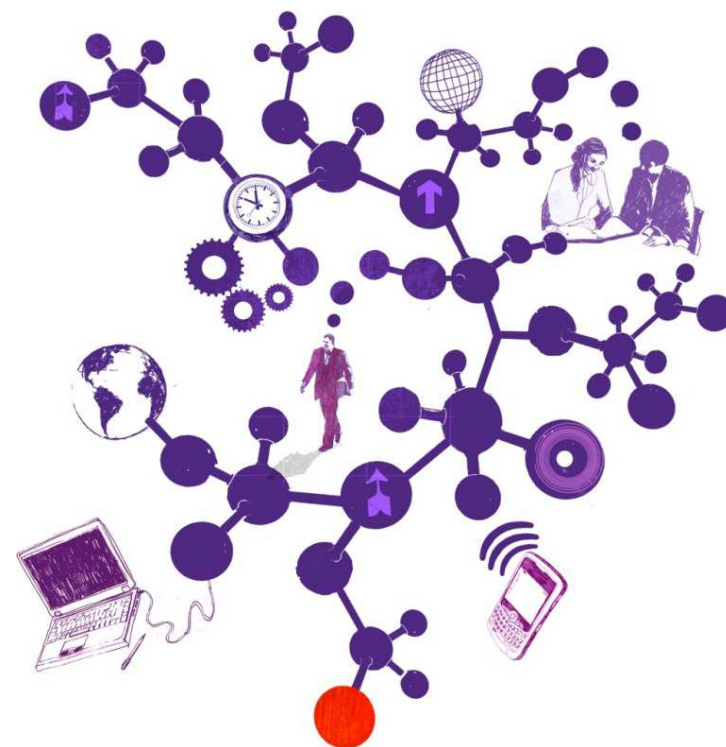
E laura.leka@uk.gt.com

Robert Brearley

In-Charge Auditor

T +44 (0)20 7383 5100

E robert.j.brearley@uk.gt.com



Contents

Section	Page
Introduction	3
Progress at January 2016	4
Emerging issues and developments	
Grant Thornton	5
Local government issues	9

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 your business 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.

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.

Members of the Governance and 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:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

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 Audit Manager.

Paul Hughes Engagement Lead T 07860 282 763 Paul.Hughes@uk.gt.com
Nicholas White Senior Audit Manager T 020 7728 3357 Nicholas.J.White@uk.gt.com

Progress at January 2016

Work	Planned date	Complete?	Comments
2015-16 Accounts Audit Plan We are required to issue a detailed accounts audit plan setting out our proposed approach in order to give an opinion on your 2015-16 financial statements.	April 2016	No	We will issue our 2015-16 Accounts Audit Plan upon substantial completion of our interim audit. This will be presented at the April Governance and Audit Committee meeting.
Interim accounts audit Our interim fieldwork visit includes: <ul style="list-style-type: none"> • updating our review of your 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. 	December 2015 and early 2016	In progress	Our interim audit will be carried out in late 2015 and early 2016. The final dates will be agreed with management in due course.
2015-16 final accounts audit Including: <ul style="list-style-type: none"> • audit of the 2015-16 financial statements • proposed opinion on your accounts • proposed Value for Money conclusion. 	June – July 2016	No	Our final accounts audit will be carried out in June and July 2016. We are working with your finance team to continue with a faster closedown and to deliver an efficient audit process in advance of the bringing forward of the accounts and audit deadlines to 31 May and 31 July respectively in 2018.
Value for Money (VfM) conclusion The scope of our work to inform the 2015-16 VfM conclusion comprises: <ul style="list-style-type: none"> • review of arrangements for securing economy, efficiency and effectiveness in your use of resources • review and evaluation of significant risks and developments arising. 	Ongoing	In progress	Our work to inform our value for money conclusion will be carried out over the course of the year, with our findings to be reported alongside our final accounts audit opinion.
Other areas of work We have completed reasonable assurance work on your 2014/15 teacher's pension return and the Initial Teacher Training audit grant report.	November - December 2015	Yes	We have completed this grant work and have not identified any issues which we need to highlight for your attention.

Turning up the volume: The Business Location Index

Grant Thornton market insight

Inward investment is a major component of delivering growth, helping to drive GDP, foster innovation, enhance productivity and create jobs, yet the amount of inward investment across England is starkly unequal.

The Business Location Index has been created to help local authorities, local enterprise partnerships, central government departments and other stakeholders understand more about, and ultimately redress, this imbalance. It will also contribute to the decision-making of foreign owners and investors and UK firms looking to relocate.

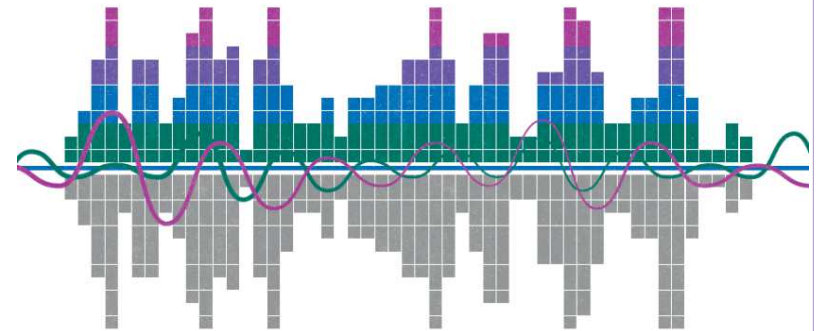
Based on in-depth research and consultation to identify the key factors that influence business location decisions around economic performance, access to people and skills and the environmental/infrastructure characteristics of an area, the Business Location Index ranks the overall quality of an area as a business location. Alongside this we have also undertaken an analysis of the costs of operating a business from each location. Together this analysis provides an interesting insight to the varied geography that exists across England, raising a number of significant implications for national and local policy makers.

At the more local level, the index helps local authorities and local enterprise partnerships better understand their strengths and assets as business locations. Armed with this analysis, they will be better equipped to turn up the volume on their inward investment strategy, promote their places and inform their devolution discussions.

The report 'Turning up the volume: The Business Location Index' can be downloaded from our website:

<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/business-location-index-turning-up-the-volume.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager



Reforging local government

Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.



Knowing the Ropes – Audit Committee Effectiveness Review

Grant Thornton

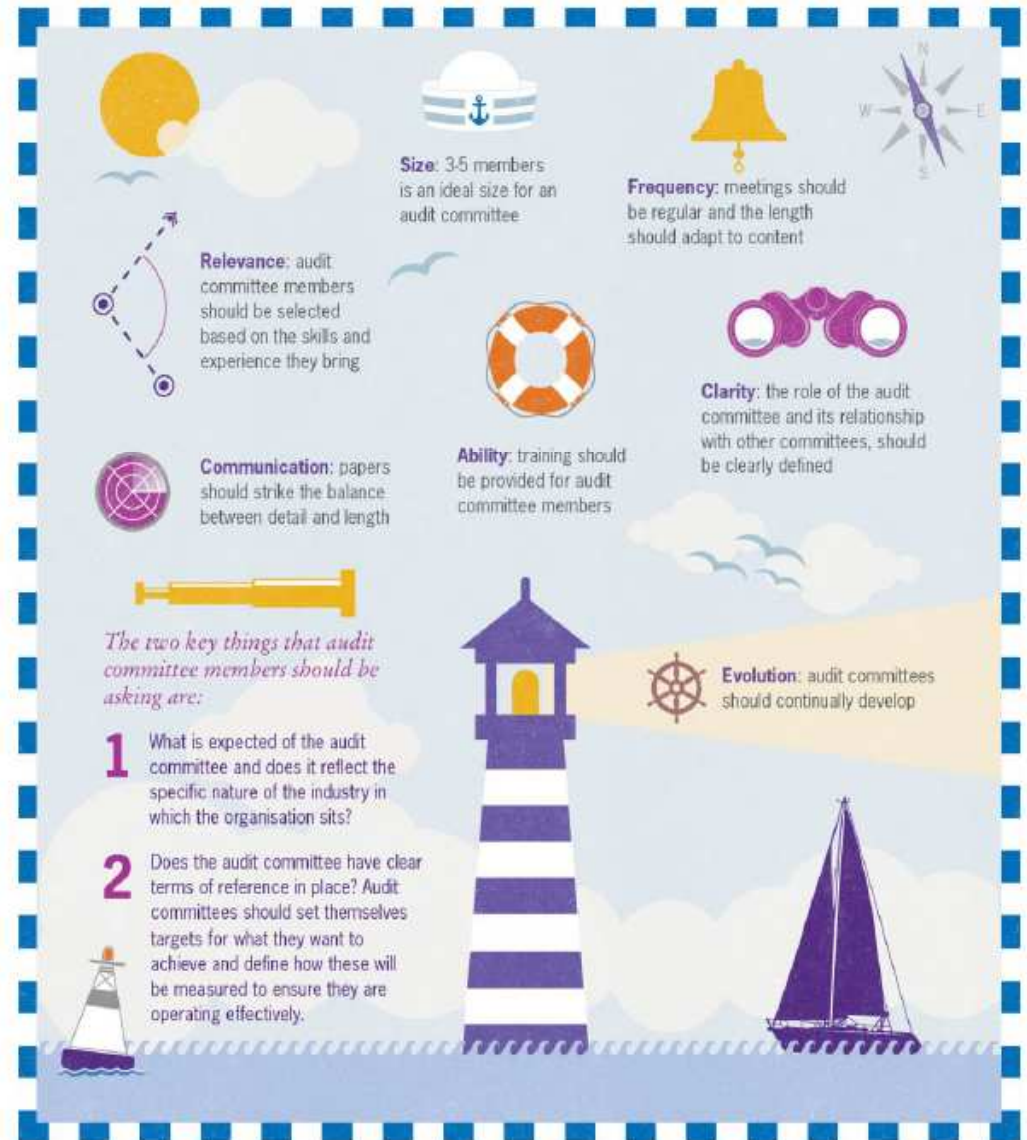
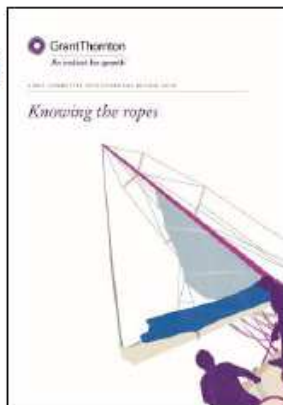
This is our first cross-sector review of audit committee effectiveness encompassing the corporate, not for profit and public sectors. It provides insight into the ways in which audit committees can create an effective role within an organisation's governance structure and understand how they are perceived more widely. It is available at <http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

The report is structured around four key issues:

- What is the status of the audit committee within the organisation?
- How should the audit committee be organised and operated?
- What skills and qualities are required in the audit committee members?
- How should the effectiveness of the audit committee be evaluated?

It raises key questions that audit committees, board members and senior management should ask themselves to challenge the effectiveness of their audit committee.

Our key messages are summarised opposite.



Growing healthy communities: The Health and wellbeing index

Grant Thornton market insight

Our Place Analytics team reveals how collaboration between local authority stakeholders can help address health quality determinants (social, economic and environmental) and result in improved health outcomes (quality of lifestyle and health conditions).

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live. Our index assesses 33 key health determinants and outcomes of health for the 324 English local authorities, to provide a coherent, national story on health and wellbeing. It highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes.

The purpose of this report is to help stakeholders – NHS providers and clinical commissioning groups (CCGs), local authorities, health and social care providers, housing associations, fire authorities and the police – to improve collaboration through a better understanding of the correlation between the economic, social and environmental health determinants and the health outcomes within their locality. It includes a concluding checklist of questions to help facilitate discussions in the light of joint service needs assessments.

The data behind the index also allows segmentation which reveals areas around the country with similar health determinants, but better outcomes. This underscores the need to work in collaboration with peers that may not be 'next door' if there is an opportunity to learn from 'others like us'.

Our report, Growing healthy communities: Health and Wellbeing Index, can be downloaded from our website:
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2015/growing-healthy-communities-health-and-wellbeing-index.pdf>

Hard copies of our report are available from your Engagement Lead and Audit Manager



George Osborne sets out plans for local government to gain new powers and retain local taxes

Local government issues

The Chancellor unveiled the "devolution revolution" on 5 October involving major plans to devolve new powers from Whitehall to Local Government. Local Government will now be able to retain 100 per cent of local taxes and business rates to spend on local government services; the first time since 1990. This will bring about the abolition of uniform business rates, leaving local authorities with the power to cut business rates in order to boost enterprise and economic activity within their areas. However, revenue support grants will begin to be phased out and so local authorities will have to take on additional responsibility. Elected Mayors, with the support of local business leaders in their LEPs, will have the ability to add a premium to business rates in order to fund infrastructure, however this will be capped at 2 per cent.

There has been a mixed reaction to this announcement. Some commentators believe that this will be disastrous for authorities which are too small to be self-sufficient. For these authorities, the devolution of powers and loss of government grants will make them worse off. It has also been argued that full devolution will potentially drive up council's debt as they look to borrow more to invest in business development, and that this will fragment the creditworthiness of local government.

Issue for consideration

Have Members:

- been briefed by your Chief Finance Officer on the Chancellor's "devolution revolution" announcement and its likely impact on the Council?

Councils must deliver local plans for new homes by 2017

Local government issues

The Prime Minister announced on 12 October that all local authorities must have plans for the development of new homes in their area by 2017, otherwise central government will ensure that plans are produced for them. This will help achieve government's ambition of 1 million more new homes by 2020, as part of the newly announced Housing and Planning Bill.

The government has also announced a new £10 million Starter Homes fund, which all local authorities will be able to bid for. The Right to Buy Scheme has been extended with a new agreement with Housing Associations and the National Housing Federation. The new agreement will allow a further 1.3 million families the right to buy, whilst at the same time delivering thousands of new affordable homes across the country. The proposal will increase home ownership and boost the overall housing supply. Housing Association tenants will have the right to buy the property at a discounted rate and the government will compensate the Housing Associate for their loss.

Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at <https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf>

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published audit guidance on the auditor's work on value for money arrangements was finalised in November 2015. The guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

Supporting members in governance

Grant Thornton and the Centre for Public Scrutiny

We have teamed up with the Centre for Public Scrutiny to produce a member training programme on governance. Elected members are at the forefront of an era of unprecedented change, both within their own authority and increasingly as part of a wider local public sector agenda. The rising challenge of funding reductions, the increase of alternative delivery models, wider collaboration with other organisations and new devolution arrangements mean that there is a dramatic increase in the complexity of the governance landscape.

Members at local authorities – whether long-serving or newly elected – need the necessary support to develop their knowledge so that they achieve the right balance in their dual role of providing good governance while reflecting the needs and concerns of constituents.

To create an effective and on-going learning environment, our development programme is based around workshops and on-going coaching. The exact format and content is developed with you, by drawing from three broad modules to provide an affordable solution that matches the culture and the specific development requirements of your members.

- Module 1 – supporting members to meet future challenges
- Module 2 – supporting members in governance roles
- Module 3 – supporting leaders, committee chairs and portfolio holders

The development programme can begin with a baseline needs assessment, or be built on your own understanding of the situation.

Further details are available from your Engagement Lead and Audit Manager





© 2016 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk