

Audit and Governance Committee
Kent County Council
Progress Report and Update
Year ended 31 March 2016

21 July 2016

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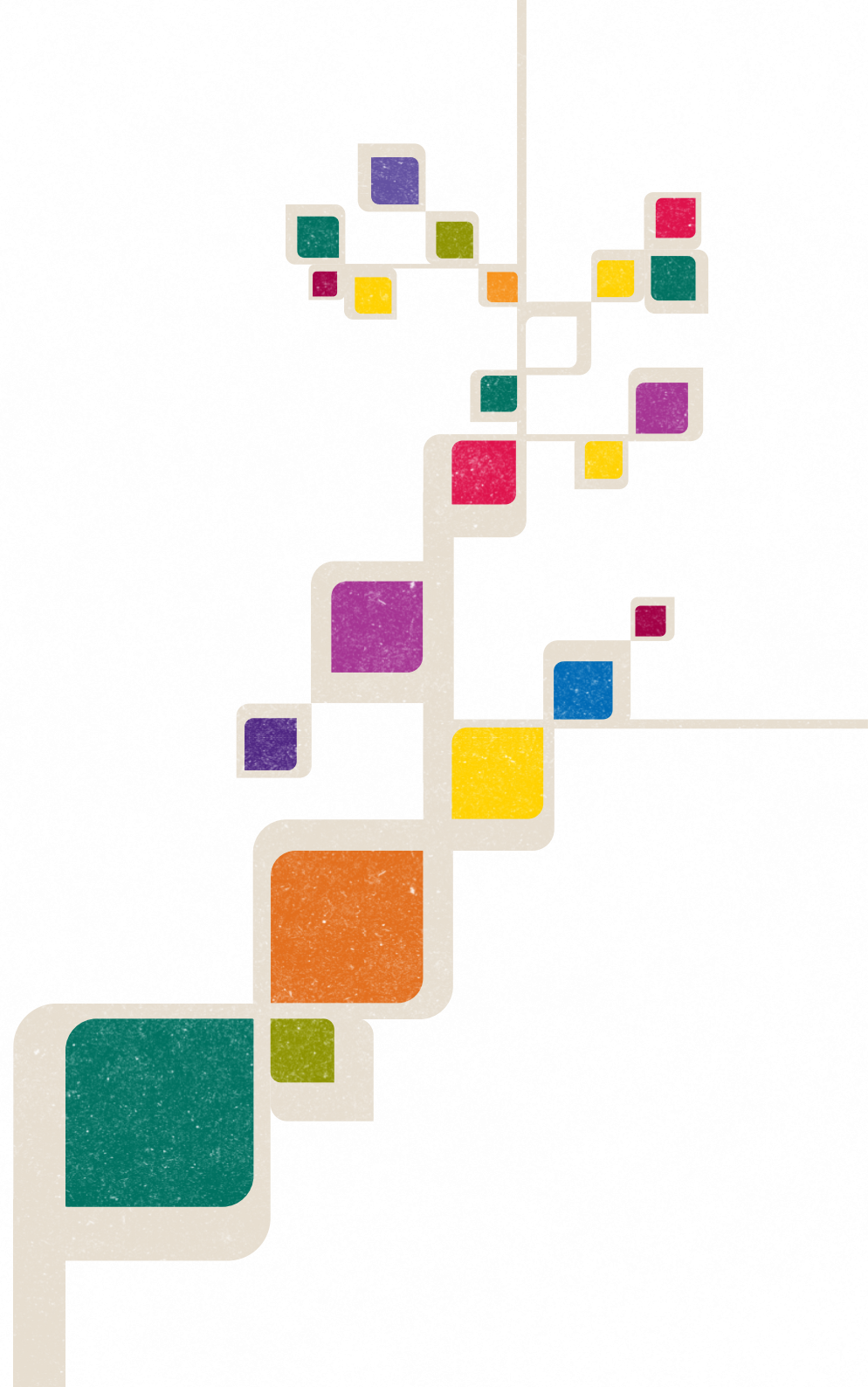
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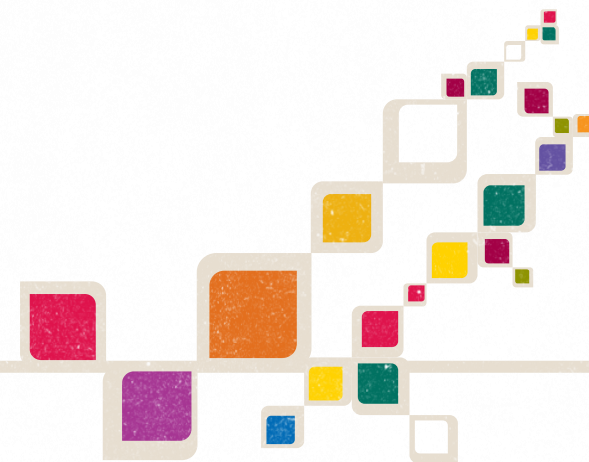
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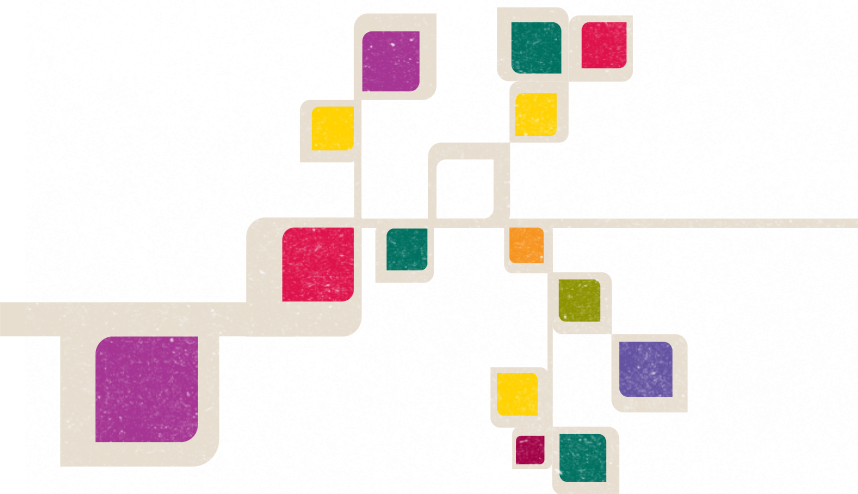
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect 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.



Contents



Contents	Page
Introduction	4
Progress at 21 July 2016	5
Emerging issues and developments:	
Local Government Accounting and other issues	7
Grant Thornton and CIPFA reports	10

Introduction

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

Members of the Audit and Governance 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. Here you can download copies of our publications:

- Reforging local government: Summary findings of financial health checks and governance reviews:
<http://www.grantthornton.co.uk/en/insights/reforging-local-government/>
- Partnership working in Mental health:
<http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2016/partnership-working-in-mental-health.pdf>
- Innovation in public financial management:
www.grantthornton.co.uk/en/insights/making-devolution-work/
- 2016 Transparency Report:
www.grantthornton.global/globalassets/1.-member-firms/global/grant-thornton-global-transparency-report-2016.pdf
- Better Together: Building a successful joint venture company:
<http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

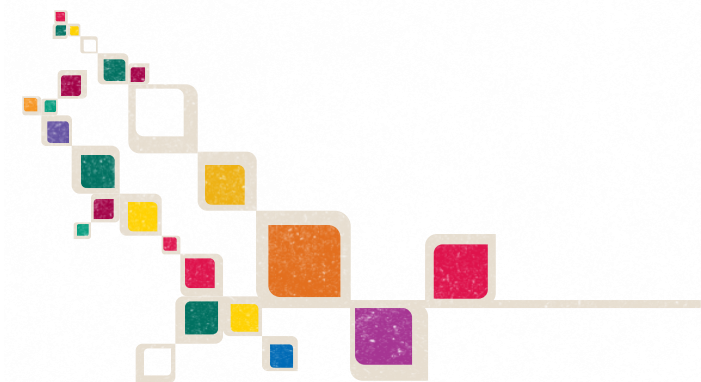
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



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Progress at 21 July 2016



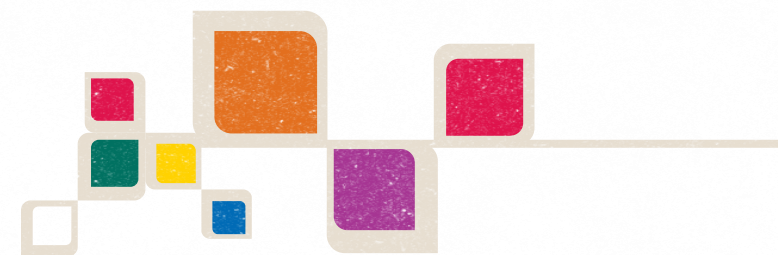
 **Progress against plan**
On track

 **Opinion and VfM conclusion**
Plan to complete our work by the 21 July 2016

 **Outputs delivered**
Fee letter, Progress Reports, delivered to plan

2015/16 work	Completed	Comments
<p>Fee Letter We issued the 'Planned fee letter for 2015/16 in April 2015.</p>	Yes on 23 April 2015	We have also recently issued the fee letter for 2016/17, with no change to the fee proposed. This is reported to this meeting of the Audit and Governance Committee.
<p>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 2015-16 financial statements.</p> <p>We also inform you of any subsequent changes to our audit approach.</p>	27 April 2016	This was presented to the Audit and Governance Committee in April.
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's 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 	December 2015 to March 2016	<p>No issues were identified during our work that require reporting to the Audit and Governance Committee .</p> <p>As part of our formal communication between auditors and the council's Audit and Governance Committee, as 'those charged with governance' we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit and Governance Committee under auditing standards.</p>

Progress at 21 June 2016



2015/16 work	Completed	Comments
<p>Final accounts audit Including:</p> <ul style="list-style-type: none"> • Audit of the 2015-16 financial statements • proposed opinion on the Council's accounts 	<p><i>Planned to be completed 21 July 2016</i></p>	<p>We are planning to complete our audit by 21 July 2016. We received unaudited accounts on 3 June 2016 and commenced the audit on 6 June 2016</p>
<p>Value for Money (VfM) conclusion The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> • Informed decision making • Sustainable resource deployment • Working with partners and other third parties 	<p><i>Field work in March – June , formal conclusion reported by 21 July 2016</i></p>	<p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We will include our conclusion as part of our report on your financial statements which we will give on 21 July 2016</p>

Local Government Accounting and other issues



IFRS 13 'Fair value measurement

The 2015/16 Accounting Code applies IFRS 13 'Fair Value Measurement' for the first time. The standard sets out in a single framework for measuring fair value and defines fair value as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

There is no public sector adaptation to IFRS13 but the Treasury and therefore the Code has adapted IAS 16 Property, Plant and Equipment so that operational assets (providing service potential) are no longer held at fair value but current value. As such IFRS 13 does not apply to operational assets. This new definition of current value means that the measurement requirements for operational property, plant and equipment providing service potential have not changed from the prior year.

However, surplus assets will need to be measured under the new definition of fair value, reflecting the highest and best use from the market participant perspective.

Other areas affected by the new standard include investment property, available for sale financial assets and those items where fair values are disclosed - for example, long term loans and PFI liabilities. IFRS 13 also introduces extensive disclosure requirements.

Local Authorities need to:

- review their classification of surplus assets and investment properties
- discuss IFRS 13 with their property valuers and treasury advisers to ensure that fair values provided are produced in line with the new standard
- update accounting policies and disclosures to reflect the new standard.



Highways Network Asset

CIPFA announced at the recent Local Government Accounting Conferences some key messages with regards to changes in accounting for the Highways Network Asset form 2016/17. These included:

- Transport Infrastructure Assets will now be referred to as single asset, the Highways Network Asset (HNA)
- this will be measured at Depreciated Replacement Cost (DRC) using the Modern Equivalent Asset (MEA) basis of valuation from 1 April 2016 and will be applied prospectively rather than requiring a full retrospective restatement
- the new requirements only apply to authorities with assets meeting the definition of a single HNA asset

CIPFA's expects that the transport infrastructure assets held by district councils/ non-highways authorities will be scoped out of the new requirements as assets are unlikely to form a single interconnected network. However, district councils will need to consider the nature of their transport infrastructure assets to assure themselves and evidence that their transport infrastructure assets are not part of an interconnected network.

The 2016/17 Accounting Code which will include further details on these announcements is expected to be published in Spring 2016. Grant Thornton has produced a short briefing on these announcements which is available from your Engagement Lead and Engagement Manager and will provide further briefings as further details become available requirements.



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