

Governance and Audit Committee  
Kent County Council  
Progress Report and Update  
Year ended 31 March 2017

25 January 2017

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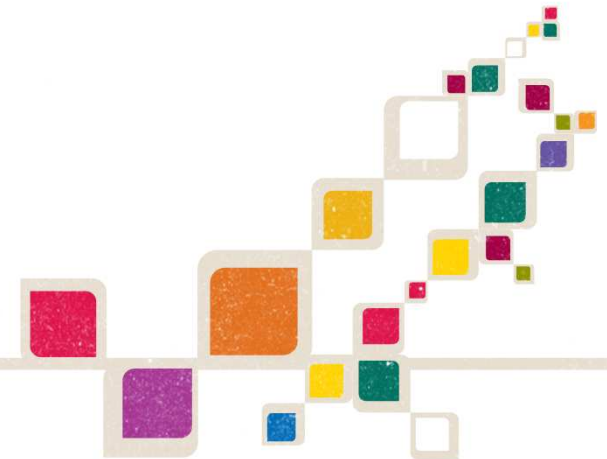
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.



# Introduction

This paper provides the 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.grantthornton.co.uk](http://www.grantthornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

- CFO Insights – reviewing councils' 2015/16 spend (Dec 2016)  
<http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/>
- Five principles of good governance – accountability (Dec 2016)  
<http://www.grantthornton.co.uk/en/insights/five-principles-of-good-governance-accountability/>
- Fraud risk, 'adequate procedures', and local authorities (Dec 2016)  
<http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/>
- CFO Insights - Local government budget 2016-2017 review (Oct 2016)  
<http://www.grantthornton.co.uk/en/insights/cfo-insights-budget-2016-17-insights-review/>
- Advancing closure: the benefits to local authorities (July 2016)  
[www.grantthornton.co.uk/insights/advancing-closure-the-benefits-to-local-authorities/](http://www.grantthornton.co.uk/insights/advancing-closure-the-benefits-to-local-authorities/)
- Building a successful joint venture company (April 2016)  
[www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/](http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/)

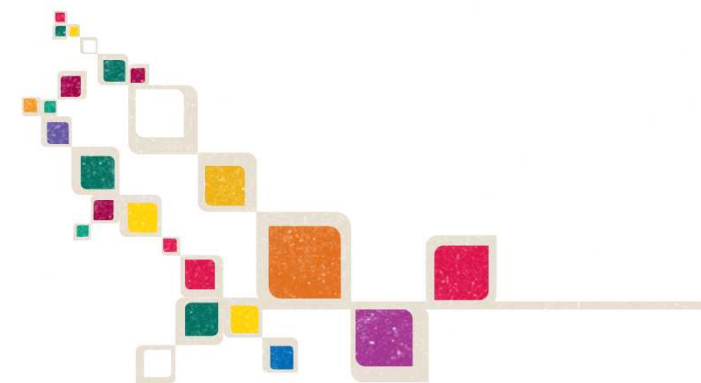
If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.



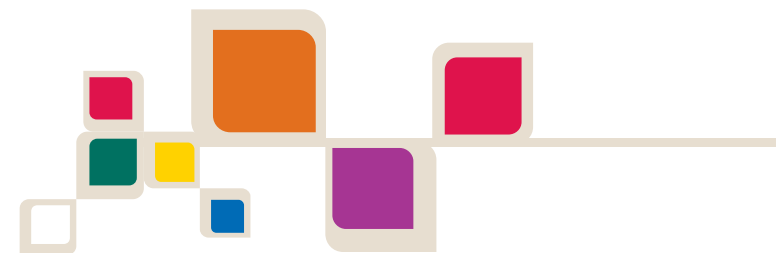
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# Progress at January 2017



**Progress against plan**  
On track



**Opinion and VfM conclusion**  
..... Plan to complete our work July 2017



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

## 2015/16 work

Planned Date    Complete?    Comments

### Annual Audit Letter

We are required to issue the Annual Audit Letter by the 30 November

30/11/16

Yes

We issued our Annual Audit Letter to the Governance and Audit Committee on 6<sup>th</sup> October 2016.

## 2016/17 work

Planned Date    Complete?    Comments

### Fee Letter

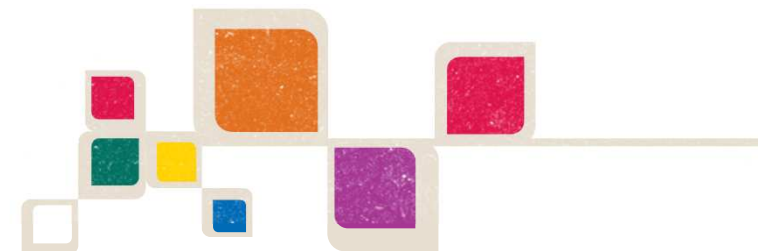
We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016

23/04/2016

Yes

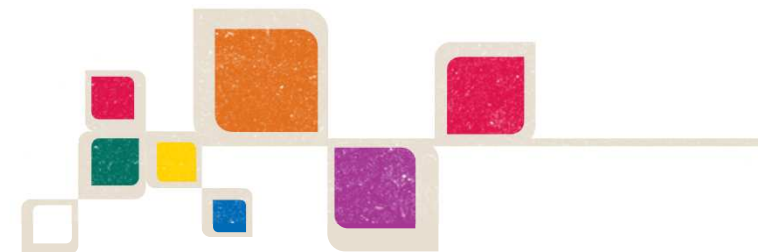
This was presented to the Governance and Audit Committee in April 2016

# Progress at January 2017



2016/17 work (continued)	Planned Date	Complete?	Comments
<p><b>Accounts Audit Plan</b> 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 2016-17 financial statements.</p>	11/04/2017	Not yet due	We plan to issue our Accounts Audit Plan to the Governance and Audit Committee on 11 <sup>th</sup> April 2017.
<p><b>Interim accounts audit</b> Our interim fieldwork visits plan includes:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	November 2016 and February/March 2017	Not yet due	We completed our first interim visit between 7 <sup>th</sup> November 2016 and 18 <sup>th</sup> November 2016. Our next interim visit is planned for 20 <sup>th</sup> February 2017 to 27 <sup>th</sup> February 2017.
<p><b>Final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16</li> </ul>	Fieldwork in June/July 2017 – formal conclusion reported by July 2017	Not yet due	Fieldwork will take place between 5th June 2017 and 30th June 2017.

# Progress at January 2017



2016/17 work (continued)	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work is unchanged from the 2015/16 financial year 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".</p> <p>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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>Fieldwork in June/July 2017 – formal conclusion reported by July 2017</p>	<p>Not yet due</p>	<p>Fieldwork will take place between 5th June 2017 and 30th June 2017.</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.</p>

# Technical Matters



# Highways network asset accounting update

On 14 November CIPFA/LASAAC announced a deferral of the move to measuring the Highways Network Asset ('HNA') at depreciated replacement cost in local authority financial statements for 2016/17. This is due to delays in obtaining updated central rates information that was required for the valuations.

CIPFA/LASAAC will issue an Update to the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom to confirm this decision once it has completed the full due process before publication. CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18 and will consider whether central rates and the central assurance processes will be delivered in a timely manner to allow successful implementation. It expects that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

In August, CIPFA published the 'Code of Practice on the Highways Network Asset (2016 Edition)' and additional guidance to aid the implementation process.



# Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

# Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year.

The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures.

# Sector issues and developments



**National Audit Office:** Below is a selection of reports issued during 2016 which may be of interest to Audit Committee members. Please see the website for all reports issued by the NAO.



### Local welfare provision

Overall spending on discretionary local welfare support by central and local government has reduced since April 2013. The consequences of this gap in provision are not understood.

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/local-welfare-provision/>

Published:  
12 Jan 2016



### English devolution deals

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended

Sector(s): [Central Finance and Treasury](#), [Community and society](#)

Performance Improvement area(s): [Economic growth](#), [Local service delivery](#)

<https://www.nao.org.uk/report/english-devolution-deals/>

Published:  
20 Apr 2016



### Financial sustainability of local authorities: capital expenditure and resourcing

Local authorities have kept up levels of capital spending but face pressure to meet debt costs and maintain investment in existing assets.

Sector(s): [Community and society](#), [Local services](#)

Performance Improvement area(s): [Financial and service sustainability](#), [Local service delivery](#)

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

Published:  
15 Jun 2016

## National Audit Office reports (continued)



### Overview: Local government

This Overview looks at the local government landscape during the last financial year and summarises both matters of likely interest to Parliament as well as our work with local authorities. The NAO prepares statutory guidance on how local auditors should meet their responsibilities.

Sector(s): [Local services](#)

Performance Improvement area(s): [Departmental Overviews](#), [Local service delivery](#)

Published:  
9 Nov 2016

<https://www.nao.org.uk/report/overview-local-government/>



### The Troubled Families programme: update

This report is a factual update to support the Committee of Public Accounts' evidence session on the government's Troubled Families programme on 19 October 2016. It is based primarily on published sources, information supplied by the Department for Communities and Local Government and previous reports published by the National Audit Office.

Sector(s): [Community and society](#), [Local services](#)

Published:  
18 Oct 2016

<https://www.nao.org.uk/report/the-troubled-families-programme-update/>

Grant Thornton



# Integrated Reporting

## Looking beyond the report

The move away from reporting based on historic financial information is beginning to gain momentum and Integrated Reporting is now mandatory in some countries.

In the UK, CIPFA proposed in their consultation document that the narrative report from 2017/18 reflects elements of the International Integrated Reporting Council's framework whilst the Treasury is encouraging public sector organisations to adopt Integrated Reporting.

*Integrated reporting: Looking beyond the report* was produced by our global Integrated Reporting team, based in the UK, New Zealand and South Africa, to help organisations obtain the benefits of Integrated Reporting.

The International Integrated Reporting Council (IIRC) describes Integrated Reporting as "*enhancing the way organisations think, plan and report the story of their business.*"

At Grant Thornton, we fully agree with this and, in our view, the key word is 'enhancing' because a lot of the elements to support effective Integrated Reporting are likely to be in place already.

But anyone focussing purely on the production of the report itself will not reap the full benefits that effective Integrated Reporting can offer.

Instead, think of Integrated Reporting as demonstrating "integrated thinking" across your entire organisation, with the actual report being an essential element of it.

Our methodology is based on six modules which are designed to be independent of each other.

1. **Secure support** – effective Integrated Reporting needs leadership from the top.
2. **Identify stakeholders** – who are they and how can you engage with them?
3. **Identify the capitals for your organisation** – what resources do you use to create value?
4. **What do you have – and what do you need?** – do you have the data you need and is it accurate?
5. **Set limits and create boundaries** – make sure your report is focussed.
6. **Review and improve** – Integrated Reporting is a continuous learning process.

Our approach to Integrated Reporting is deliberately simple; experience has shown us that this works best. Things are often only complicated because people made them that way.

Our experienced, independent teams can help you keep focused throughout the entire Integrated Reporting process and can support you, no matter what stage you are at. Please speak to your Engagement Lead if you would like to discuss this further.

## Grant Thornton publications

### Challenge question:

- Have you thought about how the principles of Integrated Reporting can help your organisation become more focussed?

 Grant Thornton  
An instinct for growth

Integrated reporting  
Looking beyond the report  
November 2016



# Integrated Thinking and Reporting

## Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders*.

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

## CIPFA Publications

### Challenge question:

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?





# Brexit

## Planning can help organisations reduce the impact of Brexit

Several months have passed since the referendum to leave the European Union (EU), during which there has been a flurry of political activity, including the party conference season.

After many years of relative stability, organisations will need to prepare themselves for a period of uncertainty and volatility and will need to keep their risk registers under constant review. The outcome of the US Presidential election in November 2016 has added to this uncertainty.

The High Court ruling that Parliament should have a say before the UK invokes Article 50 of the Lisbon Treaty – which triggers up to two years of formal EU withdrawal talks – will not, in our view, impact on the final outcome. There appears to be a general political consensus that Brexit does mean Brexit, but we feel there could be slippage beyond the original timetable which expected to see the UK leave the EU by March 2019.

2017 elections in The Netherlands (March), France (April/May), and Germany (October/November) will complicate the Brexit negotiation process and timeline at a time when Brexit is more important for the UK than it is for the remaining 27 Member States

The question still remains, what does Brexit look like?

While there may be acceptance among politicians that the UK is leaving the EU, there is far from any agreement on what our future relationship with the continent should be.

So, what do we expect based on what has happened so far?

### Existing EU legislation will remain in force

We expect that the Government will introduce a “Repeal Act” (repealing the European Communities Act of 1972 that brought us into the EU) in early 2017.

As well as undoing our EU membership, this will transpose existing EU regulations and legislation into UK law. We welcome this recognition of the fact that so much of UK law is based on EU rules and that trying to unpick these would not only take many years but also create additional uncertainty.

### Taking back control is a priority

It appears that the top priority for government is 'taking back control', specifically of the UK's borders. Ministers have set out proposals ranging from reducing our dependence on foreign doctors or cutting overseas student numbers. The theme is clear: net migration must fall.

## Grant Thornton update

### Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

### Leaving the Single Market appears likely

The tone and substance of Government speeches on Brexit, coupled with the wish for tighter controls on immigration and regulation, suggest a future where the UK enjoys a much more detached relationship with the EU.

Potential existing examples for the UK's future relationship, such as the 'Norwegian' or 'Swiss' models, seem out of the question. The UK wants a 'bespoke deal'. Given the rhetoric coming from Europe, our view is that this would signal an end to the UK's membership of the Single Market. With seemingly no appetite to amend the four key freedoms required for membership, the UK appears headed for a so-called 'Hard Brexit'. It is possible that the UK will seek a transitional arrangement, to give time to negotiate the details of our future trading relationship.

# Brexit

This is of course, all subject to change, and, politics, especially at the moment, moves quickly.

Where does this leave the public sector?

After a relatively stable summer, we expect there will be increased volatility as uncertainty grows approaching the formal negotiation period.

## Planning can help organisations reduce the impact of Brexit

The chancellor has acknowledged the effect this may have on investment and signalled his intention to support the economy, delaying plans to get the public finances into surplus by 2019/20.

We expect that there will be some additional government investment in 2017, with housing and infrastructure being the most likely candidates.

Clarity is a long way off. However, public sector organisations should be planning now for making a success of a hard Brexit, with a focus on:

**Staffing** – organisations should begin preparing for possible restrictions on their ability to recruit migrant workers and also recognise that the UK may be a less attractive place for them to live and work. Non-UK employees might benefit from a degree of reassurance as our expectation is that those already here will be allowed to stay. Employees on short term or rolling contracts might find it more difficult to stay over time.

**Financial viability** – public sector bodies should plan how they will overcome any potential shortfalls in funding (e.g. grants, research funding or reduced student numbers).

**Market volatility** – for example pension fund and charitable funds investments and future treasury management considerations.

**International collaboration** – perhaps a joint venture or PPP scheme with an overseas organisation or linked research projects.

## Grant Thornton update

### Challenge questions:

- Have you assessed the potential impact of Brexit on your organisation?
- Does your risk register include Brexit and is this regularly updated and reported?

For regular updates on Brexit, please see our website:

<http://www.grantthornton.co.uk/en/insights/brexit-planning-the-future-shaping-the-debate/>



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