

The Audit Findings for Kent County Council

Year ended 31 March 2017

19th July 2017

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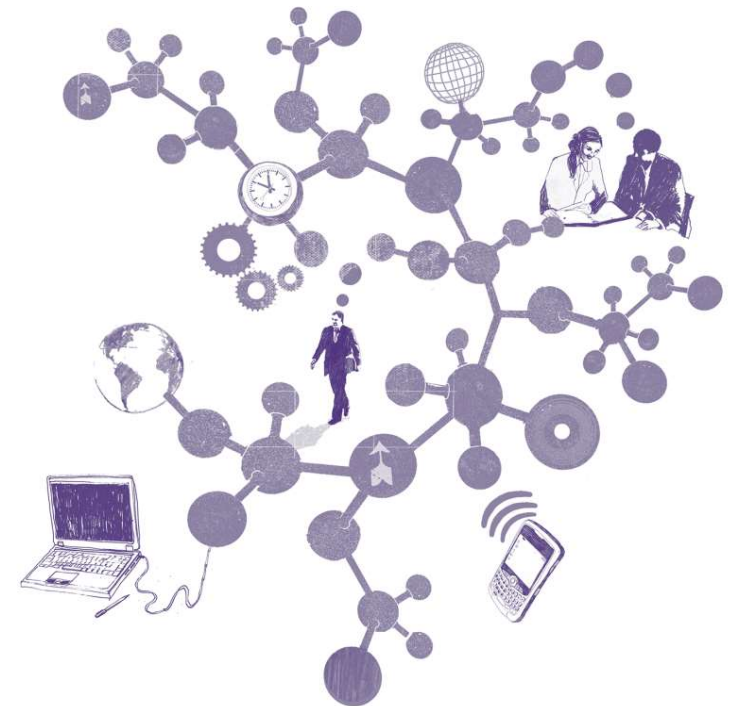
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19 July 2017

Dear Members of the Governance and Audit Committee

Audit Findings for Kent County Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Kent County Council, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Kent County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter our audit approach, which we communicated to you in our Audit Plan dated April 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of our testing of a sample of cash balances to bank reconciliations and statements;
- completion of our testing of investment balances to external confirmations;
- completion of our testing of a sample of schools capital additions;
- review of any issues coming out of a technical review of the financial statements;
- work to confirm the completeness of the transactions in the general ledger reports provided and completeness of the manual journals listing;
- completion of our file review by the Engagement Lead and Quality Review Partner and clearance of any queries coming out of those reviews;
- review of the Annual Governance Statement;
- review of the Whole of Government Accounts consolidation schedule; and
- review of the final version financial statements to agree all amendments have been correctly made.

We have also received objections on 10th July 2017 in relation to borrowing, financing and payment data which we are currently assessing.

We received draft financial statements on 2 June 2017 and accompanying working papers at the commencement of our work on 5 June 2017, in accordance with the agreed timetable. This was brought forward by a week from the prior year.

Key audit and financial reporting issues

Financial statements opinion

We have identified one adjustment affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded net expenditure on services of £1,015,060k and the audited financial statements recorded £1,015,123k. We have recommended a number of disclosure and misclassification adjustments to improve the presentation of the financial statements.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements.

This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to the timely review and write off of older receivables and payables balances.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

We are currently dealing with some queries from electors, upon the closure of these matters we will issue our audit certificate. Our audit certificates in relation to 2014/15 and 2015/16 are still open due to dealing with these ongoing matters.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Corporate Director of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Corporate Director of Finance and the finance team. We will follow up on the recommendations made during the interim audit visit in 2017/18.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
19 June 2017

Section 2: Audit findings

01. Executive summary

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £44,033,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £2,201,000. This remains the same as reported in our audit.

We did not identify any items where a separate materiality level was deemed appropriate.

Audit findings against significant risks

"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 (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 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 • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Kent County Council, mean that all forms of fraud are seen as unacceptable. 	<p>Subject to completion of the final quality reviews on our audit file, our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work performed in response to this risk is as follows:</p> <ul style="list-style-type: none"> • review of entity controls; • testing of journal entries; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions. 	<p>Subject to completion of the final quality reviews on our audit file, our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the Council. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	Property, plant and equipment Revaluation measurements not correct (valuation)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; and • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register. 	Subject to completion of the work outlined on page 5, our audit work has not identified any significant issues in relation to this risk and we are satisfied that PPE is materially correct.
4.	Valuation of Pension Fund Net Liability The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements; • review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and • review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the actuary. 	Subject to completion of the final quality reviews on our audit file, our audit work has not identified any significant issues in relation to this risk and we are satisfied that pension fund net liability is materially correct.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle; undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; reviewed the reconciliation of the payroll system to the general ledger, including trend analysis for the financial year; and performed sample testing of payroll records to gain assurance that employees have been remunerated correctly during 2016/17. 	Subject to completion of the final quality reviews on our audit file, our work is complete. Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Payables understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle; undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; and Sample testing of expenditure, payables, unrecorded liabilities, 	Subject to completion of the final quality reviews on our audit file, our work is complete. Two issues have been identified in relation to the risk identified. See further details on page 14.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, Plant and Equipment (PPE)	Activity not valid (PPE)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle; undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; and verification of the capital programme to the additions recorded in the asset register in the financial year. 	Subject to completion of the work outlined on page 5, our audit work has not identified any significant issues in relation to the risk identified
Changes to the presentation of local authority financial statements	Potential misstatements associated with changes affecting the presentation of the income and expenditure in the financial statements and associated disclosure notes and the prior period adjustment (PPA) to restate the 2015/16 comparative figures	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements; reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure, reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS); tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	Subject to completion of the final quality reviews on our audit file, our audit work has not identified any significant issues in relation to the risk identified.



New issues identified during the course of the audit

This section provides commentary on new issues which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary
1.	The regular review and writing off of older unrecoverable/no longer due receivables and payables balances	<p>Testing of receivables and payables balances at the year-end identified some balances that have not moved for several years. The recoverability of these receivables balances (£280k) is not being pursued by the Council, and they do not form part of the provision for bad debts, they should therefore be written off at 31/3/17.</p> <p>Similarly the liability associated with these payables balances (£186k) should be removed from the balance sheet at 31/3/17. The net impact on cost of services in the CIES will be an increase of £94k.</p> <p>We have suggested a controls recommendation which is detailed in Appendix A.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: <ul style="list-style-type: none"> the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. 	Overall, the Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2016/17.	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of PPE; revaluations; impairments; accruals; valuation of pension fund net liability; and other provisions. 	The Council's use of accounting estimates is disclosed in note 5 (Assumptions made about the future and other major sources of estimation uncertainty). Our review of the judgements and estimates has not identified any significant issues.	 Green



Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	Management have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	We requested from management permission to send confirmation requests to banks and lenders. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however where requests were not received we undertook alternative procedures.
6.	Disclosures	Our audit work identified no material omissions in the financial statements. A number of amendments have been discussed with the Council to enhance the disclosures made within the draft accounts (details are included within page 22 of this report).

Other communication requirements (continued)

	Issue	Commentary
7.	Matters on which we report by exception	<p>We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.</p> <p>We are required to report by exception if the Narrative Statement is inconsistent with the Financial Statements.</p> <p>We have not identified any issues we would be required to report by exception.</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and the planned timescale for the work is planned for September 2016.</p>

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	A review in the 2015/16 year of the schools salaries bank reconciliation found that there were reconciling items dating back to 2011/12 amounting to £159,483. We recommended that reconciling items should be investigated and cleared on a timely basis.	There has been an improvement in the reconciliations and work continues to improve the process. The responsibility for reconciliation and clearing of outstanding balances still lies with the BSC Operational Services Manager.
2.	✓	A review in the 2015/16 found that open purchase order accruals remained on the system. We recommended that all open orders should be reviewed on a regular (or at least annual) basis to ensure when the final invoice associated with the order is received the remaining amounts on the order are closed down.	Management continues to review open orders on an annual basis. This year's audit did not highlight any older purchase order accruals which did not represent genuine payables.

Assessment

- ✓ Action completed
X Not yet addressed

Internal controls

	Issue and risk communicated	Recommendations
1.	Audit field work on year end receivables and payables balances revealed historic outstanding receivables and payables balances that are unlikely to be recovered, with accounts have no activity on them for a number of year.	Receivables and payables balances should be regularly reviewed to ensure they represent genuine assets and liabilities. This reconciliation of old balances should be completed at least on an annual basis and should be reviewed reciprocally by the Chief Accountant.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail		Comprehensive Income and Expenditure Statement £	Balance Sheet £	Impact on total net expenditure £
1	Note. 35 Audit Costs – Fees payable in respect of other services provided by the appointed auditor line to include other fees charged during the year and to be accrued for	62, 862	62, 862	62, 682
Overall impact		£62, 862	£62, 862	£62, 682

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been corrected in the final set of financial statements.

	Adjustment type	Value £	Account balance	Impact on the financial statements
1	Misclassification	£21,921,000	Note 11 and Note 16	£21,921k of schools grants in 'Fees, charges and other income' was reclassified into 'Government grants and contributions'.
2	Disclosure	£466,000	Note 27	The EKO figure of £466k was shown separately and also included in the General receivables figure meaning the total did not agree with the balance sheet. General receivables was therefore reduced by £466k to £120,194k and the total for note 27 was reduced by £466k to £168,203k.
3	Various minor disclosure amendments	N/a	Various	We have recommended a number of minor disclosure amendments to improve the presentation of the financial statements, and to correct minor typographical errors and casting issues.

Section 3: Value for Money

01. Executive summary

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Value for money conclusion

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

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.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated April 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for money conclusion (continued)

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on page 26 and 27.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Health & Social Care Integration</p> <p>The Kent and Medway Sustainability and Transformation Plan (STP) was published in November 2016. There is recognition that healthcare needs dramatic transformation in when and where care is delivered and integration of the social care system with the NHS structures.</p> <p>Kent County Council has a major role to plan in developing the whole of the STP across Kent with the key measure of medium/long term success being a reduced demand for hospital care and emergency services which is achieved through better social care in the community, better signposting in public health to the right care at the right time, and effective partnership relationships between different public bodies facilitated by the Council.</p> <p>Kent County Council, being at the forefront of the social care redesign and in an important facilitator position, will need to make significant investment in service redesign within its own social care services, ensure through participation in shared governance bodies such as the STP Programme Board that its efforts are in line with other bodies and that collaboration/sharing takes place wherever possible.</p> <p>This will clearly be a significant challenge for the Council in the medium and long term – transformation and collaboration take time to plan and implement, but the mindset needs to become embedded in Kent's Health Economy. Your central role in this transformation project means it will present one of the most significant risks for Value for Money.</p>	<ul style="list-style-type: none"> - reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks; - reviewed your plans for transformation of social services and integration with other services in the Kent Health Economy; - reviewed your plans for participation in shared governance structures and shared monitoring of expenditure and outcomes within the Kent and Medway STP . 	<p>Our discussions with management and review of the minutes and actions of the Health and Wellbeing Board, and the proposed governance and decision-making structures set out in the internal STP board meetings, shows that detailed planning and preparation are taking place.</p> <p>Initial financial modelling in the STP plans demonstrate that there are potential efficiency and savings benefits that will benefit the whole region which are significant even if they are only partially delivered. Our discussions with management show that care is being taken to assess the financial impact of changes on Kent County Council taxpayers and protect value for money.</p> <p>Detailed plans and costings for Kent County Council are still in the very early stages, so it is too early to fully assess the impact of the changes or the likelihood of the benefits being realised.</p> <p>Against this risk, it is too early to fully conclude but the evidence of planning and modelling processes suggest you have appropriate arrangements in place for securing value for money.</p>

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>Medium Term Financial Sustainability</p> <p>At Month 10 of the 2016/17 year you were forecasting a small £2.7m overspend, but this result was improved in the last 2 months of the year to an approximate £3.7m revenue budget underspend (excluding schools).</p> <p>You have set a balanced budget for 2017/18 with a net budget requirement of £906m, and this requirement rises to £928m in 2019-20. The reduced central government funding and grants will mean that there are continuous pressures on you medium term financial planning, and this is clearly shown by the residual £97m budget gap in 2017/18 which you are bridging with efficiency saving, increased revenue generation and one-off use of your reserves.</p> <p>The government has allowed a 6% increase in Council Tax over 3 years towards the cost of adult social care which will help the medium term budget assumptions, but the position still remains extremely challenging, reflecting the nationwide picture.</p>	<p>We reviewed your arrangements over medium term financial planning including the reasonableness of significant assumptions around inflation, growth and savings.</p> <p>We considered your plans to close the projected budget gap from 2017/18 to 2019/20, including identification of savings plans, additional revenue generation plans, arrangements for monitoring and managing delivery of budgets and the potential impact on service delivery.</p>	<p>Our review of your Medium Term Financial Plan (MTFP - approved on 9th February 2017), including consideration of the key assumptions therein in relation to our knowledge of the Council and assumptions applied by other similar bodies, has shown you have sound financial planning processes in place and robust financial control.</p> <p>In the 2016/17 year your revenue expenditure was again contained within budgeted levels, and you were again able to make a small growth in your reserves. There was a significant capital underspend of £81m (increased from £28m in 2015/16). This is largely due to rephasing of projects.</p> <p>Significant savings and efficiency demands are factored into your MTFP; £55m between 2018/19 and 2019/20. The unidentified portions of these savings (currently £18.7m) is clearly a key uncertainty within the plan, but you have a good track record of delivering savings and closing previous budget gaps to remain in financial balance.</p> <p>Announcements in the Chancellor's Spring Budget have resulted in an additional £26m of adult social care funding for Kent County Council. This has moved your net budget requirement to £933m, but has not impacted other areas of your MTFP, particularly as you had not planned to use the additional power to raise up to 3% in Council Tax through a supplementary social care precept.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Proposed fee £	Final fee £
Council audit *	155,925	155,925
Total audit fees (excluding VAT)	155,925	155,925

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

- There are also estimated fees of £30,000 for work completed in relation to an objection relating to schools provision.
- As described on page 5 to this report we have received a new objection in relation to the 2016-17 Financial Statements, and there could be additional fee implications. The amount of additional work which may be necessary is currently unclear.

Fees for other services

Service	Fees £
Fees for other services:	
• Journey Time Improvement RGF	8,240
• Teachers Pensions	4,120
• CFO Insights license	3,333
• RGF Scheme Evaluation	42,019
• Tax advisory – group issues	5,150
Total	62,862

Independence and ethics

We facilitated some workshops as part of your Behavioural Change Programme for which we did not charge a fee.

We confirm that there are no other 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 on all of the above mentioned services, and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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 issues 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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Receivables and payables balances should be regularly reviewed to ensure they represent genuine assets and liabilities. This reconciliation of old balances should be completed at least on an annual basis and should be reviewed reciprocally by the Chief Accountant.	Low	Agreed	31 March 2018 Chief Accountant

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

We have audited the financial statements of Kent County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and auditor

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial

and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements: present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if: in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly

the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority 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 Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2017.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion

on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code until we have completed our consideration of objections brought to our attention by local authority electors under Section 27 of the Act. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Paul Hughes
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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** July XXXX



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