

The Annual Audit Letter for Kent County Council

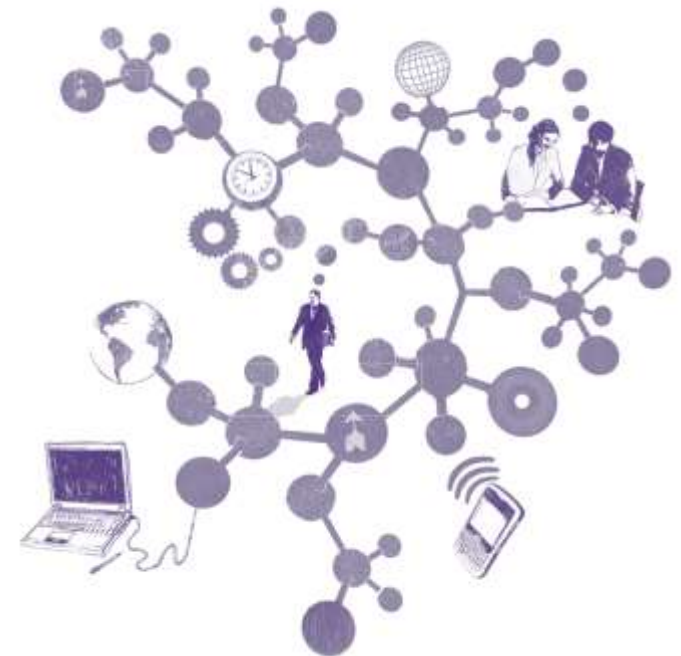
Year ended 31 March 2017

October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Kent County Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Governance and Audit Committee (as those charged with governance) in our Audit Findings Report on 19 July 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 27 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our Value for Money opinion on 27 July 2017.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts.

We have received a number of objections from local electors in relation to the accounts and we are currently considering these. At the date of issuing this Letter we are still considering this objection, and will update the Council once we are in a position to conclude our work in this area.

As a result we are unable to certify the completion of the audit until we have finished our consideration of this objection.

Whole of government accounts

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 4 October 2017.

Executive summary

Certificate

As mentioned on the previous page, we are unable to issue our certificate confirming the completion of the audit until we have completed our consideration of the Objection received in respect of the Council's Accounts. Once we have completed our consideration then we will issue our certification in a timely manner.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £44 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

Pension Fund

For the audit of the Kent Pension Fund accounts, we determined materiality to be £45.4 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<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>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>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Property, plant and equipment</p> <p>Revaluation measurements not correct (valuation)</p>	<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. 	<p>Our audit work has not identified any significant issues in relation to this risk and we are satisfied that PPE is materially correct.</p>
<p>Valuation of Pension Fund Net Liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements</p>	<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. 	<p>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.</p>

Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of level 3 investments Under ISA (UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • We carried out walkthrough tests of the controls identified in the cycle. • Tested a sample of private equity investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments had been reached. • Reviewed the nature and basis of estimated values and considered what assurance management had over the year end valuations provided for these types of investments. 	<p>Our audit work has not identified any issues around the valuation of Level 3 Investments reported at year end.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Governance and Audit Committee on 19 July 2017.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Governance and Audit Committee on 19 July 2017.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 4 October 2017.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We have received a number of objections from local electors in relation to the accounts and we are currently considering these. At the date of issuing this Letter we are still considering this objection, and will update the Council once we are in a position to conclude our work in this area.

As a result we are unable to certify the completion of the audit until we have finished our consideration of this objection.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	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>

Value for Money (continued)

Risk identified	Work carried out	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>

Appendix A: Reports issued and fees

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

Fees

	Proposed fee £	Actual fees £
Statutory audit of the Council	155,925	155,925
Statutory audit of Pension Fund	30,568	30,568
Total fees (excluding VAT)	186,493	186,493

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

Reports issued

Report	Date issued
Audit Plan	April 2017
Audit Findings Report	July 2017
Annual Audit Letter	October 2017

Fees for other services

Service	Fees £
Fees for other services:	
Non audit-related service	
• Journey Time Improvement RGF	8,240
• CFO Insights license	3,333
• RGF scheme evaluation	42,019
• Tax advisory – group issues	5,150
Audit-related service	
• Certification of Teachers' Pensions return	4,120
Total	62,862

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as set in the table below.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Considered a threat?	Safeguards
Audit related services	<ul style="list-style-type: none"> Certification of Teachers' Pensions return 	£4,120	No	Fee is low in comparison to the Council's audit fee. A separate independent engagement is performed and a report will be given in line with a separate engagement letter.
Non-audit services	<ul style="list-style-type: none"> Journey Time Improvement RGF 	£8,240	No	Fee is low in comparison to the Council's audit fee. A separate independent engagement was performed and a report was given in line with a separate engagement letter.
	<ul style="list-style-type: none"> CFO Insights license 	£3,333	No	Fee is low in comparison to the Council's audit fee. This work entails us providing the Council with information about the Council's position in relation to its peers and has no impact on the Council's financial statements or our audit.
	<ul style="list-style-type: none"> RGF scheme evaluation 	£42,019	No	Whilst this fee is significant, this work is performed by a separate engagement team who are completely independent from the external audit team to reduce the risk.
	<ul style="list-style-type: none"> Tax advisory – group issues 	£5,150	No	Fee is low in comparison to the Council's audit fee. This work entails us providing the Council with tax advice only and has no impact on the Council's financial statements or our audit.
	TOTAL	£62,862		



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