

Annual Audit Letter

Kent County Council

Audit 2010/11



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

Audit opinion and financial statements

- I issued an unqualified audit opinion on the 2010/11 financial statements, including the Kent Pension Fund, on 26 July 2011. This is one of the earliest audit opinions in local government.
- The financial statements were of a good quality. The Council responded well to the challenge and complexity of reporting for the first time under International Financial Reporting Standards.
- During the audit a minor number of amendments were identified and officers agreed to amend all but two of these errors. Neither of the unadjusted errors affected my audit opinion. This is a significant achievement by the Council considering the increased workload and tight timescales for producing the accounts.

Value for money

- I issued an unqualified value for money conclusion on the arrangements Kent County Council has in place for securing economy, efficiency and effectiveness in the use of its resources on 26 July 2011.
- The Audit Commission requires me to report by exception where significant matters come to my attention which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources. Such a matter is the findings from the Ofsted inspection of the Council's safeguarding children and young people services and services for looked after children.
- My work to support the value for money conclusion assessed the senior management restructure and the significant financial challenges the Council is facing. I agreed a number of recommendations with the Council and reported these in the Annual Governance Report presented to the Governance and Audit Committee on 14 September 2011.

Current and future challenges

Economic downturn and pressure on the public sector

The economic forecast for the UK and western developed countries remains gloomy. In his comprehensive spending review announcement in October 2010, the chancellor set out a significant financial challenge for the public sector. This includes significant decreases in local government funding:

- 28 per cent decrease in Revenue Support Grants (excluding schools) by 2014/15;
- 45 per cent fall in capital funding from central government; and
- 0.1 per cent real term increases in schools funding each year.

Organisational development

The Council's Medium term financial plan highlights the need for £95 million savings on its budget for 2011/12 and £65 million in 2012/13. A robust process applied to identifying savings targets for 2011/12. Some of the savings required in the current year have been 'funded' by underspends from last year and the use of specific reserves. The Council intends to reinstate these reserves from base budget contributions from 2014/15 onwards.

The latest budget report to Cabinet shows there is an overspend of £7.5 million to the predicted year-end forecast. This is mainly a result of schools overspending at £5.7 million. Management action is being taken and the underlying revenue pressure, excluding schools, of £1.8 million is expected to reduce to £1.3 million by 31 March 2012. Management remains confident there will not be a significant overspend at year-end.

Work is in progress to identify savings for 2012/13. It is likely that delivery of savings in this year and beyond will need to be achieved more through policy changes than efficiency savings. Consultation is likely to be required and therefore these schemes may have a long lead in time. Continued strong political decision making based on robust information, coupled with strong project management for identifying and monitoring savings schemes will be essential.

I will continue to monitor the Council's plans for agreeing its budget for 2012/13 over the coming months.

The Council recognised that it needed to change to adapt to the current financial climate. In its medium term plan, 'Bold Steps for Kent', it published new ambitions for the next four years and stated its aim to modernise the Council. Its ambitions are; 'To help the Kent Economy to Grow'; 'To Tackle Disadvantage' and 'To Put the Citizen in Control'. (The Council with its partners was recently successful in securing £40 million funding from central government to encourage business growth in East Kent, a key contributor to its 'economy' aim). In July 2011, the Council published a delivery framework for 'Bold Steps', setting out key priorities, milestones and key performance measures.

Work is in progress to develop a rounded, robust performance monitoring suite to track progress against the key priorities.

Modernisation of the Council has begun. A corporate restructuring is in progress to support better the delivery of the key aims and to change the culture of the Council from silo working to one unified council. Alongside this key business practices are being refreshed, such as staff performance management and setting and embedding management standards. Taken together, delivery against the Council's medium term aims and the modernisation of its modus operandi represents a key challenge.

Children's services

Following an inspection by Office for Standards in Education (Ofsted) last year, improving its arrangements to ensure the safeguarding and protection of children has been the Council's top priority. Work has focused on key improvement areas agreed with Ofsted. Regular reports to Cabinet during the last 12 months have highlighted the positive progress made. In November 2011, the Council announced on its website that Ofsted had acknowledged that 'significant improvements had been made' following a two day unannounced visit. The Council recognises much more work is needed on its children's services. It is developing the second phase of its improvement plan to build on the progress made so far; to focus on quality (services, record keeping and management) and to develop the range of preventive services.

Planned changes to legislation

The government has announced some wide-ranging reforms to the public sector since taking office in May 2010. Many are contained in the Localism Bill, key aspects of which include:

- introducing a general power of competence for local authorities;
- introducing the right for communities to bid for local assets threatened with closure, challenge the way services are provided and initiate referendums; and
- significant reforms to the planning system.

The Council will need to consider the implications of this new legislation. Some proposals may involve changes to workloads or more coordination with other local authorities. The Council will also need to consider the implications for their medium term financial plans of changes to funding arrangements or to the overall level of central government support.

Financial statements and annual governance statement

The financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

The Council dealt successfully with the challenges posed by the requirements of International Financial Reporting Standards and produced a full set of accounts, of a good quality, three weeks earlier than the statutory deadline of 30 June.

Officers responded quickly to audit queries and provided evidence in a timely manner. My audit work identified a small number of errors and omissions in the accounts but in the context of the challenging accounting changes introduced by international financial reporting standards, this is a significant achievement by officers. I reported the findings of my audit to members of the Council's Governance and Audit Committee on 30 June 2011. I highlighted two errors in the accounts that were not corrected; a £3.9 million overstatement of adult social care gross expenditure and gross income and a duplicated asset in the balance sheet of £6.9 million. Members accepted officers' reasons for not amending the accounts. I did not judge these errors to be material to my audit opinion.

I issued an unqualified audit opinion on the 2010/11 financial statements, including the Kent Pension Fund, on 26 July 2011. This is one of the earliest audit opinions in local government and was achieved because of the quality accounts produced and highly effective joint working between officers and auditors.

Significant weaknesses in internal control

International standards of auditing require the auditor to report any significant weaknesses in the systems of internal control identified through their work. I confirmed to the Governance and Audit Committee that I did not identify any significant weaknesses in the Council's internal control arrangements. I did however, highlight a few areas where internal control could be strengthened, in respect of foster care payments and IT controls. Officers are strengthening controls in the areas I identified.

Icelandic bank investments

In previous Audit Letters, I have highlighted the Council's position in respect of money deposited with Icelandic banks. The Council had £50.3 million, including £16.3 million relating to Kent Superannuation Fund and £1.8 million deposited on behalf of Kent and Medway Fire and Rescue Authority, placed with Icelandic banks at the time of their collapse in October 2008. Since then the Council has worked with others on behalf of the local government sector to recover this money. On 28 October 2011 the Icelandic Supreme Court announced that local authorities do have preferential creditor status with the three banks. Under Icelandic law depositors are preferred creditors and they should receive a full payout before any other creditors are paid. Expected returns are:

- Glitnir – invested £15 million and a predicted return of 100 per cent;
- Heritable – invested £18.35 million and recovered £12.02 million as at 31 October 2011. Total predicted return is 88 per cent; and
- Landsbanki – invested £17 million and a predicted return of 98 per cent.

In its financial statements for 2010/11 the Council impaired these funds in line with the latest guidance from CIPFA. I confirmed that the fair values and impairments for the outstanding deposits shown in the Council's accounts follow the guidance.

Audit certificate

I have not yet certified the closure of the 2010/11 audit as I am considering an objection made to the Council's accounts. The potential sums involved in the objection are not material to the financial statements for 2010/11 and therefore did not stop me from issuing an opinion on the statement of accounts.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. My conclusion did report by exception Ofsted's concerns (Office of Standards in Education) over the Council's children's services.

My conclusion on each of the two areas is set out below.

Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council's medium term financial plan highlights the need for savings of £95 million in 2011/12 and £65 million the following year. In 2011/12, the target was to be achieved through efficiency savings of £39 million, policy changes of £35 million, use one-off funds of £15 million and increased income by £6 million.</p> <p>Project management arrangements are in place to monitor the identification and delivery of savings plans. This includes satisfactory oversight by CMT, the Governance and Audit Committee and policy overview and scrutiny committees. An early control required the responsible directorate to prepare a short Project Initiation Document (PID) identifying how the savings will be delivered, the level of savings and project milestones. Individual projects were risk assessed for delivery. My high level review of the Council's monitoring spreadsheet shows that the total savings requirement in the MTFP was adequately captured and savings identified and that all projects over £200,000 have PIDs in place. I reviewed some of the schemes to assess the robustness of the savings assumptions and the appropriateness of the delivery risk rating. In all cases I considered the risk rating to be a fair reflection of the likelihood of achieving the targeted savings.</p>

Criterion

Key messages

Following the initial PID process, the Council's focus for monitoring and review has moved from savings delivery to budget monitoring. Therefore delivery of savings is now monitored via its usual budget reporting process rather than a separate RAG rating or reporting the value of savings achieved and forecast. This is sensible and appropriate.

However the delivery of the savings schemes may present specific risks around achieving base budget changes and one-off compensating actions. Although budget monitoring will highlight significant non-delivery of savings targets, without reviewing milestones there are risks that non-delivery may not be highlighted early enough for remediable action. The Council is reviewing corporate arrangements for monitoring achievement of PID milestones; this should include a risk assessment of each PID and clarify any escalation procedures to be used if necessary.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

In autumn 2010, the Council embarked on a programme of senior management restructure called 'Change to Keep Succeeding'. This was in response to the cuts in public sector funding and to strengthen corporate arrangements to deliver the Council's Medium Term Plan, Bold Steps for Kent, and new government policies and priorities. Key principles of the restructure included improving productivity and efficiency through economies of scale and providing a structure to support an integrated 'One Council' approach to minimise duplication and avoid professional silos. The Council set a challenging timetable to implement the new structure by the start of the new financial year 2011/12.

The restructuring is being effectively managed. The senior management/ directorate restructure was completed in line with the planned timetable and with no detrimental impact on the delivery of Council services. Relevant systems (Finance, HR, IT etc) were up and running as planned on 4 April 2011. Significant work was undertaken to update systems to go live from 4 April 2011 including the use of dry runs and data cleaning on the HR system and the remapping of budgets to align with the new structure. The majority of transition work was completed at the start of the financial year, but some issues arose following implementation which required additional work. For example, final transfers of some staff and review of transferred budgets and associated funding. Lessons learnt from the restructure exercise were reported to CMT and recommendations have been integrated into future Council work programmes. My work confirmed there is a good understanding of the recast budget in directorates.

Following completion of this first stage of the restructure the Council is completing restructures within directorates and resulting savings have been factored into the MTFP.

Criterion

Key messages

The restructuring led to some senior staff redundancies. I reviewed the payments to these staff and concluded the payments were in line with the Council's redundancy policy and the local government pension scheme. The costs of the redundancies and the early access to pensions were reported to, and approved by, the Council's Personnel Committee.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Ofsted's inspection of the Council's safeguarding children and young people services and services for looked after children raised significant concerns about operational practice (which is outside the scope of my consideration) and aspects of the Council's proper arrangements. I consider that the inspection highlighted weaknesses in the Council's arrangements for:

- producing relevant and reliable data and information to support decision making and manage performance; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

Closing remarks

I have discussed and agreed this letter with the Group Managing Director and the Acting Corporate Director of Finance and Procurement. I will present this letter at the Governance and Audit Committee on 29 November 2011 and will provide copies to all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Kent County Council Audit Fee Letter and Kent Superannuation Fund Audit Fee Letter	June 2010
Audit Fee Updates	September and November 2010
Kent County Council Opinion Audit Plan and Kent Superannuation Fund Opinion Audit Plan	March 2011
Certification of Claims and Returns Annual Report	March 2011
Annual Governance Report	June 2011
	September 2011 (revised)

The Council has taken a positive and constructive approach to our audit. I wish to thank members and Council staff for their support and co-operation during the audit.

Darren Wells
District Auditor

29 November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Audit Fee	385,000	385,000	(0)
Pension fund fee	50,000	50,000	(0)
Total	435,000	435,000	(0)

The scale fee for 2010/11 for Kent County Council is £416,910. The pension fund audit fee was fixed at the Audit Commission scale fee. The Audit Commission made refunds of local authority audit fees to subsidise the 'one-off' element of the cost of transition to IFRS and to reflect the new reduced arrangements for local value for money audit work. These refunds are not reflected in the Kent County Council fee quoted above but totalled £39,086.

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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