The Audit Findings for Kent County Council

Year ended 31 March 2021

November 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management will be discussed with the Governance and Audit Committee on the 30 November 2021.

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 30 November 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during July to October. Our findings are summarised on pages 6 to 26. The Council's single entity draft financial statements alongside a full suite of working papers were submitted for audit in early July in line with agreed timetables. As in previous years, the quality of the financial statements and supporting working papers continues to be high evidenced by the small number of presentation and disclosure issues identified during our audit. Your corporate finance team engages well with the audit process and responds promptly to our audit queries.

The group financial statements were submitted in early October and key working papers to support the consolidation remained outstanding until November. For 2021-22, management will need to work with key stakeholders to ensure the group financial statements are prepared at the same time as the main financial statements.

As a result of our audit there was one key issue discussed with management concerning a £4m invoice that was raised to an NHS CCG in April 2021 despite there being no evidence to support the substance of the transaction. From an accounting perspective, we are satisfied there is no material impact on the financial statements. From an internal control and governance perspective there remains a risk which does need to be addressed with a matter of urgency. More details can be found on page 11 in the 'Key issues discussed with management' section.

There are no adjusted misstatements to the financial statements which impact the General Fund.

We have identified four misstatements from our testing which management have decided not to adjust for.

1. The first arose as a result of five errors identified within our sample testing of post period end invoices. The errors relate to liabilities which should have been accrued for in the 2020/21 accounting period. The extrapolation of these five errors is £10,459k.
2. The second arose as a result of a specific test we performed against post period end invoices of a large capital supplier. Our testing identified £7,940k which should have been accrued for in the 2020/21 period.
3. The final unadjusted misstatement relates to a £4m invoice KCC raised to a local NHS CCG in April 2021. Although the CCG paid this invoice, there was insufficient evidence to determine what period the revenue related to. As a result of this uncertainty, management opted not to account for any revenue in 2020/21. Given the lack of evidence, we are reporting this uncertainty as a unadjusted misstatement. A related control finding around the raising of invoices without proper supporting evidence has also been raised.
4. As part of our revaluations testing, we identified several assets where the carrying value as at the balance sheet dated did not agree to the value per the valuation report. The reason for the difference is because accumulated depreciation had not be correctly reversed out. The impact of this is a £3.306m misstatement in both PPE and the CIES.

Management have decided not to adjust for these misstatements because they are both individually and in aggregate not material to the financial statements. These three unadjusted misstatements are set out in Appendix C. We have also identified several presentation and disclosure adjustments to the financial statements, these too are set out in Appendix C.

Recommendations for management as a result of our audit work are set out in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Continued overleaf…

1. Headlines - continued

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our work is nearing completion and currently there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- evidence to support 3 creditor samples selected on the 16 November
- completion of our testing on CHAPS payments
- completion of our work on financial instruments completion of our planned group auditor procedures including review of the assurances from the component auditor
- property, plant and equipment valuations – we are currently awaiting a response from our auditor's expert to a query we have raised about the residual appraisal valuation for two assets.
- completion of our work on IT general controls of the Council and the group

Our work is also subject to the following procedures which are always completed at the final stage just before issuing our opinion;

- senior management quality review
- receipt of management representation letters; and
- review of the final sets of financial statements, Annual Governance Statement and Narrative Reports.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was addressed to the chair of the Governance and Audit committee on 22 September 2021. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness from our risk assessment performed however identified the following areas of focus:

- The Council's arrangements for setting the Medium Term Financial Plan and achieving financial sustainability.
- The Council's arrangements to produce, monitor and ensure delivery of the Strategic Plan
- The Council's governance arrangements including a focus on the Council's response to findings in relation to Woodford
- The Council's arrangements for service transformation, innovation and cultural change.
- The Council's arrangements for the effective use of data to make informed business decisions
- The Council's arrangements in response to the Covid-19 pandemic and capitalising on the benefits from the different models of service delivery and ways of working brought about by the pandemic.

Our work on this risk is underway and an update is set out in the value for money arrangements section of this report.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in February 2022.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on the 07 October.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for operating expenditure of Commercial Services Kent Ltd was required, which was completed by Bishop Fleming.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 30 November. The outstanding items are detailed on pages 3 and 4.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our audit plan presented to the Governance and Audit Committee in March 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as video meetings to conduct all progress meetings and to go through audit queries/evidence, verifying the completeness and accuracy of information provided remotely produced by the Council, and provision of all audit evidence through the Inflo system. Whilst challenging we were able to draw on and apply learning from last year's audit.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

In our Audit Plan communicated in April 2021, we set materiality at 1.5% of the gross revenue expenditure plus interest payable in the prior year audited accounts (£2,441m). In the 2020/21 draft accounts, gross revenue expenditure increased to £2,734m.

We reassessed materiality following receipt of the draft accounts and revised it upwards in light of the increase in gross revenue expenditure.

Council [redacted]

	Planning (£)	Final (£)	Qualitative factors considered
Materiality for the financial statements	36,000,000	41,000,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective was to provide services to the local community, therefore gross expenditure was deemed the most appropriate benchmark. This benchmark was used in the prior year also. We considered 1.5% to be an appropriate rate to apply to the gross expenditure benchmark.
Performance materiality	27,000,000	30,750,000	The Council does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	1,800,000	2,100,000	The threshold above which we are required to report errors or uncertainties to those charged with governance, calculated as 5% of materiality.
Materiality for senior officers' remuneration and related parties	100,000	100,000	Senior officer remuneration and related parties are areas of interest to readers of financial statements. A lower level of materiality in these areas is appropriate due to the nature of these disclosure notes.

Group [redacted]

	Planning (£)	Final (£)	Qualitative factors considered
Materiality for the financial statements	37,000,000	41,500,000	Same as above
Performance materiality	27,750,000	31,125,000	Same as above
Trivial matters	1,850,000	2,075,000	Same as above
Materiality for senior officers' remuneration and related parties	100,000	100,000	Same as above

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and group	We have: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Conclusion:** Our work has not identified any material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. (rebutted)	Council and Group	Having considered the risk factors set out in ISA240 and the nature of the Council and the Group's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Kent County Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Kent County Council or the Group NB: Although we have rebutted this risk, we have still performed substantive work on all relevant assertions of revenue where those revenue streams are material to the financial statements.
Valuation of land and buildings (Rolling revaluation) The Council re-values its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers (£2,407m) involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2021 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	Council and Group	We have • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assessed the value of a sample of assets in relation to market rates for comparable properties. Conclusion: Subject to the satisfactory resolution of the outstanding matters detailed on pages 3, our work has not identified any material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the pension fund net liability (£1,635 million) The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,635 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk. .	Council and Group	We have: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • We have also conducted work to satisfy ourselves that the movement within the IAS 19 report described as 'experience' is reasonable and appropriate Conclusion: Our work has not identified any material issues in relation to this risk.

2. Financial Statements – Key issues discussed with management

£4m invoice to an NHS CCG without any supporting evidence

Description of the issue:

As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description "20/21 contribution to joint investment with adult social care for vulnerable adults".

As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it. This control deficiency has been raised and it is included in the Action plan – see Appendix A.

Auditor considerations:

There are certain characteristics about this transaction which raises concerns for us, these factors are set out below:

- We are aware that as at the 31 March 2021, NHS organisations had excess cash and were under pressure to reduce their yearend surpluses. As public sector auditors we were therefore hypersensitive to any transactions which could be used to inappropriately transfer the surplus of an NHS body from 2020/21 to 2021/22.
- This transaction would appear to the auditors of the NHS organisation as a valid expenditure item in the 2020/21 accounts as it was raised by a third party (Kent County Council) with a description of it being a 2020/21 item of expense.
- Despite numerous requests, the Authority was unable to provide any documentation, contractual or otherwise, to validate the substance of the transaction

The risk identified with this transaction:

The key risk with this transaction is whether the Authority accepted income from the NHS without any clear evidence of a service being provided to transfer £4m or the NHS body's surplus from 2020/21 to 2021/22. The benefit to the NHS body being that the £4m could then be used to finance healthcare in 2021/22 because otherwise it would ultimately transfer back to the Treasury.

Additional work performed:

As a result of these factors, we performed the following additional procedures:

- Confirmed that the NHS organisation paid this invoice
- Confirmed KCC did not credit note this transaction
- Reviewed all invoices raised by the NHS organisation to ensure the £4m was not clawed back

Conclusion:

Based on the additional procedures performed we have found no evidence that the risk has crystalised. Nonetheless, given no expenditure has been incurred against the £4m to date, this risk still remains. Going forward, it is important for the Authority to obtain sufficient evidence from the third party as to the contractual status of this £4m transaction.

2. Financial Statements – Key findings arising from the group audit

As at the date of writing this report, our audit procedures on the group account, including review of the work of the component auditor is still in progress.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations (including surplus assets) – £2,407 million	Other land and buildings comprises £2,068m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£339m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end for operational assets or fair value (FV) for assets designated as surplus. The Council has engaged Wilks Head & Eve LLP (WHE) to complete the valuation of properties as at 1 April 2020 on a five yearly cyclical basis. 90% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £181m. £169m of the gain has been taken to the revaluation reserve with the remaining £12m going through the Comprehensive Income and Expenditure Statement (CIES). Management has considered the year end value of properties not re-valued in year (£242m). In particular, management has considered the potential valuation change in the assets based on the market review provided by the valuer as at 31 March 2021, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. Management has not documented consideration of alternative estimates for the valuation of its land and buildings, and the modern equivalent assets used in the DRC valuations have not changed significantly, which is to be expected given the Council's estate.	As part of our work we have: • reviewed the land and buildings valuation estimate in line with the revised ISA540 requirements and have no issues to raise; • reconciled the fixed asset register to the ledger and the financial statements • assessed management's valuation expert and found them to be competent, capable and independent; and • verified the valuer's outcome against our independent auditor's expert valuation trend report. • verified that management's judgement that the carrying value of assets is not materially different to the current value is reasonable. This has been done by setting an independent expectation of the difference using indices provided by Gerald Eve. • assessed the reasonableness of alternative site judgements and assumptions • assessed the accuracy and completeness of underlying information used to determine the estimate; and • assessed the reasonableness of key underlying assumptions i.e. Build Costs. This assurance was provided to us by our auditor's expert. Findings: Revised ISA540 requires enhanced disclosure of accounting estimates in the financial statements and we have agreed with the Council disclosure changes to enhance the quality of disclosures around estimation uncertainty of land and building valuations. Conclusion: No issues identified	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,635m	The Council's net pension liability at 31 March 2021 is £1,635m (PY £1,363m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £271.7m net actuarial loss during 2020/21.	• We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 19/20 roll-forward calculation carried out by the actuary. • We have used PwC as our auditor expert to assess the actuary their assumption – see table below for our comparison of actuarial assumptions:	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.0 %	1.95 – 2.05 %	●
Pension increase rate	2.80 %	2.80 – 2.85 %	●
Salary growth	3.8 %	3.80 – 3.85 %	●
Life expectancy – Males currently aged 45 / 65*	Pensioners: 21.6 Future pensioners: 22.9	Pensioners: 20.5 – 23.1 Future pensioners: 21.9 – 24.4	●
Life expectancy – Females currently aged 45 / 65*	Pensioners: 23.6 Future pensioners: 25.1	Pensioners: 23.3 – 25.0 Future pensioners: 24.8 – 26.4	●

*Actuary used a CMI 2020 model with LT improvement rate of 1.25%

- Continued overleaf

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,635m **- continued**		• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2020/21 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets. • Our work confirms that the increase in the IAS 19 estimate is reasonable.	Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £59m	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt – known as its Minimum Revenue Provision (MRP). The Council's approach to the MRP is set out to Members as part of the Budget and council tax proposals each year. The basis for the charge is set out in Regulations and statutory guidance. This year the MRP charge was £59m (2019/20 £59m).	**Context** Before 2004, Whitehall issued UK Local Authorities with annual credit approvals, effectively setting a cap on each authority's borrowing. That system ended with the introduction of the prudential framework in 2004 which allowed Local Authorities to spend and borrow without approval. In recent months, the MHCLG published a policy paper which set out that they were "currently reviewing the statutory powers for capping borrowing and considering how and when we will apply these to protect local financial sustainability". It is clear then that the government is concerned about the financial sustainability of local authorities and so we have performed work around the minimum revenue provision (MRP) set by the authority to ensure not only that it complies why the agreed policy, but that the policy itself is reasonable to ensure the authority is able to repay borrowing in the long term. **Findings:** We have carried out the following work: • Confirmed that the Council's policy on MRP complies with statutory guidance. • Assessed that there are no changes to the Council's MRP policy in comparison to 2019/20. • Assessed and benchmarked the percentage of the Council's MRP charge against the opening capital financing requirement (4.6%). As this is above 2%, it falls within our 'Green' range – no concerns identified. • Assessed and benchmarked the percentage of the Council's total debt against the capital financing requirement (85%). As this is below 100%, it falls within our 'Green' range – no concerns identified. **Conclusion:** Based on our findings, we are satisfied that the MRP charge complies with regulations and is set at a prudent level to repay borrowing over the long term. The MRP charge must remain under regular review, particularly in light of future capital spending plans.	Light purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation (£148m)	Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Equipment including vehicles are depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant. For existing assets the source data is the carrying value at the start of the year. For existing buildings this was provided by the valuer. For other existing assets it is the brought forward depreciated replacement cost. For new assets it is the purchase cost during the year. For buildings this is the revaluation performed at year end. The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset. There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year.	As part of our work we identified that management's accounting policy to not depreciation assets in the year it was brought into use is not consistent with the LG Code (4.1.2.41) which requires assets to be depreciation at the point in which they are brought into use. We have performed work that confirms this departure does not lead to a material misstatement in the accounts. We have estimated the impact as £3.3m which is significantly below our materiality level. Based on the work we have performed in respect of your Depreciation estimate, we have not identified any material issues although the accounting policy not to depreciation in the year of use is optimistic.	Blue – materially correct but includes optimistic assumption
PFI liability (carrying value - £209m) (fair value - £277m)	PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM , are accounted for as 'on-Statement of Financial Position' by the entity. The PFI liability is determined by the original financial model updated for inflation and relevant variations. The source data is derived from the financial model. Estimates are used for un-invoiced variations (or credits for insurance) based on estimates provided at the time of the variation. In line with IFRS 13 requirements, in addition to the carrying value of the liability on the balance sheet, management must also disclose the fair value of the liability. Management has engaged an expert to estimate the fair value of the PFI liability (£277m). There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year.	Our work in respect of the estimate of your PFI liability, including the fair value estimate has not identified any material issues.	Light purple

2. Financial Statements - Internal Control

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management, are included in the action plan at Appendix A.

Assessment	Issue and risk	Recommendations
●	**Insufficient evidence for raising revenue debtor** As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description *"20/21 contribution to joint investment with adult social care for vulnerable adults"*. As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it.	• Management should ensure debtor invoices are only raised when there is sufficient evidence to support the substance of the transaction.

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management, are included in the action plan at Appendix A.

Assessment	Issue and risk	Recommendations
●	**CHAPS payments** In December 2020, your internal auditor issued a report on urgent CHAPS payments. The opinion provided by your internal auditor was 'limited' meaning that adequate controls were not in place. This report raised concerns about the lack of due process, controls, oversight and governance around these payments. As a result of these issues, your internal auditor concluded that 'the absence of robust oversight and control heightens the risk of fraudulent activity, errors, or omissions being overlooked'. As part of our risk assessment we therefore identified this as a risk factor and performed specific procedures to ensure that the risks identified did not crystalize into a material error within the financial statements. As at the date of writing this report, our work in relation to CHAPS payments is still ongoing.	• Management should ensure they implement the control recommendations raised by your internal auditors in relation to CHAPS payments

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	**Declaration of interest** As part of our work on the related party disclosure, we requested to obtain the signed declaration of interest forms pertaining to the Corporate Management Team (CMT). Initially, management provided all but one of the declaration. It took over two months for management to provide us with the declaration form for the final member of the CMT. This form had to be signed retrospectively to cover the financial period in question. NB: following receipt of the final signed declaration form, we have obtained the necessary assurances to complete our work on related party transactions.	• Management should ensure all members of the CMT, and particularly those not permanently employed by the Council, have returned signed declaration forms ahead of the publication of the draft financial statements
●	**Unsigned Cantium Contract** As part of our risk assessment procedures carried out in March 2021 we requested to obtain signed copies of contracts between the Council and suppliers the Council has outsourced key finance/accounting functions to. Signed contracts were obtained for all outsource providers apart from Cantium. Six months since our original request, we have still not received the signed contract with Cantium, a wholly owned subsidiary of the Council. There is some uncertainty as to whether the contract was signed at all. As a result, we consider this to be an internal control deficiency. NB: We have obtained and reviewed the unsigned contract which has enabled us to obtain the relevant assurances.	• Management should ensure that all contracts are signed and maintained such that they can be accessed on request.

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	**Related party interest of Councillors** On probing the nature of one Councillor's relationship with a community interest company, it was made apparent that KCC had made the assumption that the Councillor's position as a director for the company was as part of their role at KCC when, in actual fact, it is a position that they hold outside of their Councillor duties. We identified on Companies House that the councillor is a 'person with significant control'. In line with the CIPFA Code Section 3.9, as the councillor has significant influence over KCC then the community interest company is a related party. Also, given the sum of transactions (£708k) in 20/21 is significantly above our own specific materiality threshold for Related Parties, we deem this to be a necessary disclosure. This also would have been the case for prior years. The accounts have been updated for this disclosure omission. Nonetheless, there remains a control deficiency as management's processes and controls failed to identify and detect a related party transaction.	Management should review their processes and controls to identify related parties to ensure they capture all interests of Councillors and challenges whether those interests are part of their role as a Councillor or not.
●	**Gross Internal Area (GIA) data testing for PPE revaluations** As part of our PPE revaluations testing, we reconcile the GIA/Floor areas per the valuers report back to your source estates system (K2). As part of this work we identified instances where your valuer had identified additional elements or blocks which did not appear in the K2 system. An example being where the valuer had identified and valued an football astro pitch which was not included in your estates register. Given the valuer had visited and measured these sites, we are comfortable that their valuation exercise is complete and accurate but it does indicate that your estates system has not fully been updated. Based on our work we are satisfied that there is no residual risk of material misstatement but we are highlighting the discrepancy should management deem it worthwhile to update the K2 system.	• Management to consider whether the K2 system needs to be updated for components identified by your valuer which are not currently on the estates system.

Assessment

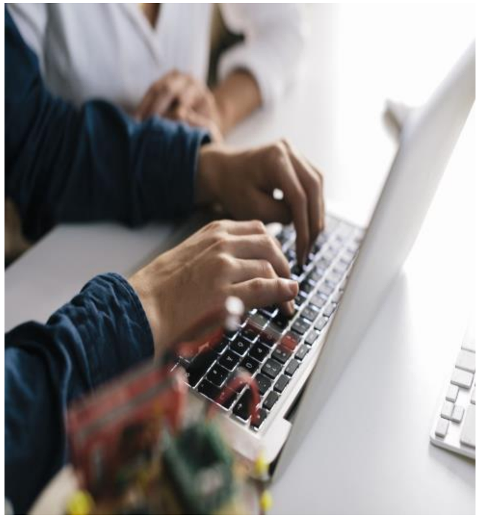
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Governance and Audit Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. Positive confirmations were obtained for all relevant balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We are finalising our review and will communicate any findings to management.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management is being provided as prompt as possible. Information and evidence which needs to be provided outside of the main finance team does however take longer. Your finance team are doing a good job to quality assess the information provided by service before it comes to us which reduces the amount of follow up queries we need to raise. At the start of the audit transaction listings for income and expenditure contained many contra entries which ultimately reverse out and do not form part of the year end balances. We worked with the Council to ensure that transaction listings were cleansed before we selected samples. Furthermore, listings obtained were often at a summary level and so this added an extra layer of complexity and time when selecting samples.

2. Financial Statements - other communication requirements

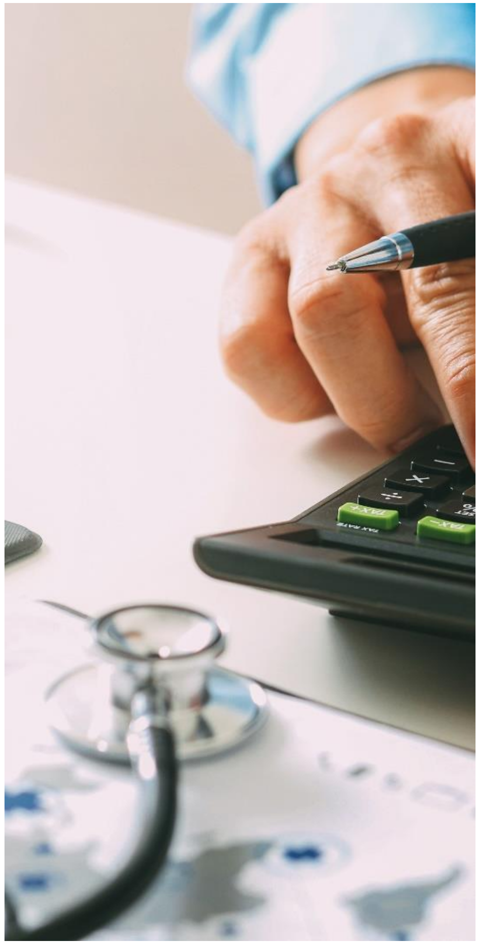
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No issues were identified from our work.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	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. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We plan for this work to be completed in line with the national deadline.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of **Kent County Council** in the audit report, due to our Value for Money and WGA work not being complete.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

4. Independence and ethics

We confirm that there are no 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Kent & Medway Active Sports Partnership (2020/21 Audit)	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Regional Growth Fund Assurance	100,000	Self-Interest Self review (because GT provides audit services) Management	Whilst the total fees from this work could in isolation be construed to be a threat, as it is over 70% of scale fee it is important to note that the fees are not recurring and this work will be undertaken on a one off basis. Furthermore, under NAO guidance, this work does not count against the 70% CAP. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. This work is also carried out by a team separate from the audit engagement team. The work is being reviewed be a separate engagement lead to ensure an independent perspective. Note – this work was subject to PSAA approval. In September 2021, this work was approved by PSAA.
Non-audit related			
CFO insights (Subscription ending September 2021	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendices

A. Action plan – Audit of Financial Statements

We have identified six of recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**Insufficient evidence for raising revenue debtor** As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description *"20/21 contribution to joint investment with adult social care for vulnerable adults".* As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it.	Management should ensure debtor invoices are only raised when there is sufficient evidence to support the substance of the transaction. **Management response** This is an isolated incident and the importance and requirement of having clear evidence before raising invoices has been reiterated at the Budget Management Team and at Team meetings.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	**CHAPS payments** In December 2020, your internal auditor issued a report on urgent CHAPS payments. The opinion provided by your internal auditor was 'limited' meaning that adequate controls were not in place. This report raised concerns about the lack of due process, controls, oversight and governance around these payments. As a result of these issues, your internal auditor concluded that 'the absence of robust oversight and control heightens the risk of fraudulent activity, errors, or omissions being overlooked'. As part of our risk assessment we therefore identified this as a risk factor and performed specific procedures to ensure that the risks identified did not crystalize into a material error within the financial statements. As at the date of writing this report, our work on CHAPS payments is still ongoing.	• Management should ensure they implement the control recommendations raised by your internal auditors in relation to CHAPS payments **Management response** **All recommendations and management actions following the internal audit of CHAPS payments have been implemented. A subsequent issue around year end processing and posting dates has been found and officers are in the process of identifying the cause and will implement processes and a solution prior to next year-end.**

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Grey – best practice	**Unsigned Cantium Contract** As part of our risk assessment procedures carried out in March 2021 we requested to obtain signed copies of contracts between the Council and suppliers the Council has outsourced key finance/accounting functions to. Signed contracts were obtained for all outsource providers apart from Cantium. Six months since our original request, we have still not received the signed contract with Cantium, a wholly owned subsidiary of the Council. There is some uncertainty as to whether the contract was signed at all. As a result, we consider this to be an internal control deficiency. NB: We have obtained and reviewed the unsigned contract which has enabled us to obtain the relevant assurances.	• Management should ensure that all contracts are signed and maintained such that they can be accessed on request. **Management response** To ensure that contract information can be accessed as requests arise Strategic Commissioning will develop and put in place a contracts register which will provide details of the contract status including that it is signed and sealed.
Grey – best practice	**Related party interest of Councillors** On probing the nature of one Councillor's relationship with a community interest company, it was made apparent that KCC had made the assumption that the Councillor's position as a director for the company was as part of their role at KCC when, in actual fact, it is a position that they hold outside of their Councillor duties. We identified on Companies House that the councillor is a 'person with significant control'. In line with the CIPFA Code Section 3.9, as the councillor has significant influence over KCC then the community interest company is a related party. Also, given the sum of transactions (£708k) in 20/21 is significantly above our own specific materiality threshold for Related Parties, we deem this to be a necessary disclosure. This also would have been the case for prior years. The accounts have been updated for this disclosure omission. Nonetheless, there remains a control deficiency as management's processes and controls failed to identify and detect a related party transaction.	Management should review their processes and controls to identify related parties to ensure they capture all interests of Councillors and challenges whether those interests are part of their role as a Councillor or not. **Management response** We will check Companies House and our own register to understand the relationship and will recommend an improvement to the declaration of interest form to identify the type of representation, whether it is on behalf of KCC or a personal arrangement.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Grey – best practice	**Gross Internal Area (GIA) data testing for PPE revaluations** As part of our PPE revaluations testing, we reconcile the GIA/Floor areas per the valuers report back to your source estates system (K2). As part of this work we identified instances where your valuer had identified additional elements or blocks which did not appear in the K2 system. An example being where the valuer had identified and valued an football astro pitch which was not included in your estates register. Given the valuer had visited and measured these sites, we are comfortable that their valuation exercise is complete and accurate but it does indicate that your estates system has not fully been updated. Based on our work we are satisfied that there is no residual risk of material misstatement but we are highlighting the discrepancy should management deem it worthwhile to update the K2 system.	• Management to consider whether the K2 system needs to be updated for components identified by your valuer which are not currently on the estates system. **Management response** Finance will work with our valuer and Property colleagues to ensure that the K2 system is fully up to date to ensure there is no risk of a material misstatement.
Grey – best practice	**Declaration of interest** As part of our work on the related party disclosure, we requested to obtain the signed declaration of interest forms pertaining to the Corporate Management Team (CMT). Initially, management provided all but one of the declaration. It took over two months for management to provide us with the declaration form for the final member of the CMT. This form had to be signed retrospectively to cover the financial period in question. NB: following receipt of the final signed declaration form, we have obtained the necessary assurances to complete our work on related party transactions.	• Management should ensure all members of the CMT, and particularly those not permanently employed by the Council, have returned signed declaration forms ahead of the publication of the draft financial statements **Management response** The delay in providing the declaration of interest form related to a software submission issue and the situation has been resolved by completing a paper form in the interim. Finance and HR will review the declaration of interest process and improve the ORACLE self service functionality to ensure it is a live document, declarations are updated on a timely and regular basis and prior to completion of the draft accounts to enable assurance on related party interest.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Kent County Council's 2019/20 financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented two of our recommendations and work is still on going in relation to one. The control issue in relation to the group accounts has not been addressed and remains a control issue going into 2021/22.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Group accounts issue:** In 2019-20 the Council produced group accounts for the first time. The working papers provided to support this process were extensive and detailed and documented the process, sources of information and any judgements. However, discussing the group accounts consolidation process with management, and on review of the working papers, several areas where the processes could be improved for future years were identified. Without the information from counterparties which provide the appropriate level of detail, there is a risk that there will be significant unexplained differences between data. In addition, without the level of detail in the returns to enable the expected disclosures in the group accounts there is a risk the group reported will not be able to comply with the requirements of the accounting framework. **Recommendation:** The returns required from consolidating bodies and schools should be reviewed to ensure they include the detail of the intragroup transaction to enable eliminations on consolidation to be matched in full and reduce the level of judgement in the process.	The draft group accounts were submitted for audit at the start of October. A full suite of working papers were not provided until November. Management must continue to work with key stakeholders to ensure the production of the group accounts is in line with the closedown timetable. **Management update:** The previous year's issue on the intra group transactional data was primarily due to the cyber- attack on Commercial Services, which meant that we couldn't match in detail as the information wasn't available. This issue did not occur this year but the timeliness of the working papers was due to resource issues and changing roles within the team. A dedicated resource for group accounts has now been appointed which will allow improvements to be made.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Bank reconciliation issue:** During our bank testing in 2019-20 we were made aware that the payments account was not reconciled in the period from September 2019 to July 2020 due to issues with the specialized software required for the process including failure of the single machine that had the software installed. The reconciliation was performed for the year end date in September 2020 and provided to the audit team. The reconciliation process identified items which had not been processed between bank accounts. The adjustments totaled £2.8m however these were between payments account and the general account within the bank section so there is nil impact on the financial statements. **Recommendation:** The Council should ensure that specialized software for key processes is not restricted to one user and there is a contingency plan where the failure of such software would impact the Council's ability to perform key financial controls.	No issues were identified during our current year audit of cash. The software is now available to more than one users.
✓	**AUC classification:** Our testing in 2019-20 identified amounts within Assets Under Construction as at 31 March 2020 which had become operational before the period end. **Recommendation:** The capital team should ensure that the project managers being asked to provide information regarding assets are aware of the accounting requirements for the classification of assets and when they are considered operational. The close down process should include challenge of any assets under construction that have been classified under this heading for more than one year to ensure they are being reclassified at an appropriate time.	No issues identified during our current year audit in relation to the classification of Assets Under Construction.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Creditors account codes:** Creditor account codes are not regularly reconciled. **Recommendation:** The Council should review the balance sheet account codes and ensure that each has an 'owner' and a reconciliation is performed at regular intervals appropriate for the size and frequency of transactions for the code and should include a reconciliation process at year end.	Management are still in the process of implementing this control consistently across all relevant creditor codes. This has not however prevented us from obtaining sufficient appropriate assurance over the creditors balance as at 31 March.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments – adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There have been no adjusted misstatements included in the financial statements of the Council or the Group.

C. Audit Adjustments – unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Post period end invoices received sample testing: To obtain assurance over the completeness of liabilities/expenditure in the accounts we obtain a list of all supplier invoices received by the Council post period end (April and May 2021). We reviewed this listing and selected a sample for testing. Our sample testing identified five instances where an invoice was received which related to 2020/21 activity but hadn't been accounting for in the 2020/21 financial statements. We have evaluated the potential misstatement in the financial statements by extrapolating this error across the affected population. This extrapolation projected a misstatement of £10,459k. As this amount is below materiality, we are satisfied there is no risk of material misstatement. Given that it exceeds our triviality threshold, we are required by the ISAs to communicate this extrapolation in this report. Of the five errors, three related to capital spend and two related to expenditure. In our extrapolation, we have apportioned the error between capital and expenditure by the same magnitude as the error percentage found in our sample testing.	Council and Group	Expenditure 468	Creditors (10,459) PPE 9,991	468	Not material - extrapolation

C. Audit Adjustments – unadjusted misstatements - continued

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Post period end invoices received specific testing: As part of our post period end invoice testing we isolated payments made in respect of a large capital project 'Sevington' on the basis it was large and unusual. Our testing of this identified £7,940K payments (net of VAT) made in 2020/21 that related to capital that had been delivered by the balance sheet date. Management did not accrue for this in the 2020/21 accounts which means that liabilities is understated in the financial statements. Although the monies spent was on capital works, because the buildings being constructed are not on land owned by KCC, it has to be recognised as Revenue Expenditure Funded Under Capital (REFCUS) in accordance with the Local Government Code of Practice. KCC received direct funding from the Department for Transport and so the impact on the CIES would be negated by a draw down on a capital received in advance. There is therefore no net impact on total net expenditure and the closing balance of the General Fund is unaffected.	Council and Group	REFCUS – cost of services expenditure 7,940 Specific grant – cost of service income (7,940)	Creditors (7,940) Capital Grants in Advance 7,940	Nil	Not material

C. Audit Adjustments – unadjusted misstatements - continued

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
£4m debtor As part of our post period end testing of invoices raised by KCC, we identified an invoice raised in April 2021 for £4m to an NHS CCG. Although the invoice described the transaction as relating to 2020/21 as a result of insufficient evidence to prove that genuine revenue had been earned, management decided to defer the revenue into 2021/22. Whilst management's judgement is understandable and prudent given the lack of information, there remains an uncertainty as to what period the revenue relates. The CCG duly paid the £4m in April 2021 and there is no evidence from the third party that they expect it back. We are therefore communicating this issue to you as an uncertainty insofar as the £4m of revenue could pertain to the 2020/21 account year as described on the invoice itself. NB: we have raised a related control issue to the fact that invoices should not be raised without appropriate supporting evidence pertaining to the substance of the transaction to enable proper accounting.	Council and Group	**Revenue** (4,000)	**Creditors** 4,000	(4,000)	Not material

C. Audit Adjustments – unadjusted misstatements - continued

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
PPE accumulated depreciation not written out Under the Local Government Code of practice, when an operational land or building is revalued, any accumulated depreciation on that asset must be written out. For the vast majority of assets our testing confirmed this accounting treatment was correctly applied, however, for a small number of assets accumulated depreciation was not fully written out. The impact of this meant that the net book value of those assets did not agree to the value per your valuers report. This means that your asset values on the balance sheet is understated and either your revaluation reserve or CIES is understated by the same amount. The value of the understatement on PPE is £3.306m. It is not known what proportion of this should be written out to the Revaluation Reserve and how much should go through the CIES. As a worst case scenario, we have assumed that it all goes to the CIES in communicating this unadjusted misstatement to you. Note – this misstatement has no net impact on the closing balance of the general fund as the gain through CIES would be reversed through the MIRS into the unusable reserve of the Capital Adjustment Account.	Council and Group	Gain on revaluation (3,306)	PPE 3,306	(3,306)	Not material
Total impact	Council and Group	(6,838)	6,838	(6,838)	Not material

C. Audit Adjustments – misclassification and disclosure

Misclassification and disclosure changes

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

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
£32m misclassification on Investments	As part of our testing of Investments, we identified that £32,383k of investments were incorrectly classified as long term in the draft financial statements. As part of our audit procedures to review the maturity dates of investments, we found that for these investments, they were all due to mature within 12 months of the balance sheet date.	Adjust the balance sheet to reclassify £32,383k of LT investments into ST investments.	✓
Critical judgements	Several improvements have been made to the critical judgements note. These include: • removing disclosure on judgements which are not material • expanding the narrative in the PPE disclosure to lay out the assessment management has performed to ensure that the carrying value of assets isn't materially different to the current value	To update the critical judgements note accordingly	✓
Other grants disaggregation	Note 16 includes the disclosure of the line item "other grants" - £176m. Under IAS 1, the classification of a material item as "other" is not considered to be appropriate. We have requested management to disaggregation this balance into specific items such that "other grants" is not material.	Management to revise note 16 by disaggregating "other grants" such that the amounts contained within it is not material	✓

C. Audit Adjustments – misclassification and disclosure - continued

Misclassification and disclosure changes

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

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Note 40 sub note – 'Price risk'	As part of our testing of Investments, we identified that the comparative amount for the value of council's investment in CCLA local authority property fund was mistakenly understated by £10m in current year statement of accounts.	Adjust the disclosure figure as per prior year signed audited accounts.	✓
Related party transactions	Following challenges of management, as per ISA 550, we identified a related party that had not previously been disclosed for a member. The disclosure was omitted because management had incorrectly assumed that the Councillor's involvement with the other entity was as a result of their duties as a Councillor. During 2020-21 works and services to the value of £0.708m (£0.763m in 2019-20) were commissioned from a company with which one member had an interest in. Note, contracts were entered into in full compliance with the Council's standing orders and there is no evidence there being an issue with conflicts of interest.	Management to update the Related Party Transactions note to include the £708k transactions between the Authority and the entity.	✓
Capital commitments	In accordance with Code of Practice, the Council must disclose contractual capital commitments as at the balance sheet date. This disclosure was omitted in the draft financial statements on the basis of materiality. Upon challenge, the value of contractual capital commitments exceeded the materiality threshold and so management have now included this disclosure in the financial statements.	Management to disclose the value of contractual capital commitments as at the balance sheet date	✓

C. Audit Adjustments – misclassification and disclosure - continued

Misclassification and disclosure changes

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

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Related Party Transactions	As part of testing of Related party disclosures, we were informed that the figures for intercompany transactions are draft and will be revised by management once work on Group accounts is finalised and complete information is available from counterparties. The change is to reflect the figures based on the Group Accounts work and at the time for completing the single entity accounts the matching process had not been completed. The significant change is the payments made to the Group and this related to the agency staff cost which were not picked up in the related party transaction listings run when completing the draft accounts. Draft disclosure: The Council has one active subsidiary company, the largest of which is Kent Holdco Ltd. During the year the total values of payments made to and received from Kent Holdco Ltd, were £49.4m and £7.2m respectively (£55.6m and £8.6m respectively in 2019-20) Final disclosure: The Council has one active subsidiary company, the largest of which is Kent Holdco Ltd. During the year the total values of payments made to and received from Kent Holdco Ltd, were £65.2m and £7.3m respectively (£55.6m and £8.6m respectively in 2019-20)	To update the accounts accordingly	✓

D. Fees

We confirm below our final fees charged for the audit and provision of audit related and non-audit related services. We would also note that PSAA have made a distribution of £23,690 to support 2020/21 fees. MHCLG Have also agreed a further £15m to support the cost of audit fees in 20/21- albeit allocations yet to be determined.

Audit fees	Proposed fee	Indicative Final fee
Council Audit	£191,432	£191,432
Total audit fees (excluding VAT)	**£191,432**	**£191,432**

Non-audit fees for other services	Proposed fee
Audit Related Services	
Teachers' pensions	10,000
Kent & Medway Active Sports Partnership*	4,000
Regional Growth Fund Assurance**	100,000
Non-audit related	
CFO insights	12,500
Total non-audit fees (excluding VAT)	**£126,500**

**The Kent & Medway Active Sports Partnership is a separate entity although the fee is billed to the Council and recharged which is why it is not disclosed in the accounts as fees payable to the auditor in respect of other services.*

*** The Regional Growth Fund Assurance is subject to PSAA. In September 2021 PSAA approved the work to be carried out. The work is due to begin in October but we are reporting it here for transparency. The fee is not included in the 2020-21 accounts but if it the work does go ahead then it will be disclosed in the 2021-22 financial statements.*

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