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Date: 19 January 2023

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 26 JANUARY 2023

I am now able to enclose, for consideration at next Thursday, 26 January 2023 meeting of the Governance and Audit Committee, the following report that was unavailable when the agenda was printed.

Agenda Item No

8 **External Audit Progress Report (Pages 1 - 12)**

Yours sincerely

A handwritten signature in black ink, appearing to read 'B. Watts', is written over a faint, circular stamp or watermark.

Benjamin Watts
General Counsel

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External audit plan

Year ending 31 March 2022

January 2023
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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 Authority 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.

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Introduction

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This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/industries/public-sector/local-government/>

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

Progress at January 2023

2021/22 financial statements audit update

Our final accounts visit started in October 2022 as planned. Your finance team provided us with a full set of financial statements as well as a complete suite of working papers that has enabled us to progress the audit as planned.

The audit is nearing completion having finalised our work in several areas. As explained below, the statutory instrument in relation to Infrastructure assets came into effect on the 25 December 2022. This requires management to make adjustments to the initial draft accounts to ensure compliance. For that reason, alongside a handful of ongoing audit issues, the original planned date of sign off on the 26 January 2023 will come too soon.

An extraordinary Governance and Audit Committee has been arranged for the end of February for us to share our Audit Findings Report ahead of the Governance and Audit Committee making a decision on whether to approve the statement of accounts.

As communicated in October 2022, the audit of the Pension Fund is complete.

Infrastructure assets update

As we reported in our November progress report, an issue relating to the reporting of infrastructure assets has led to delays in local authority audits, principally for highways authorities. The issue is a technical accounting one and arises principally because of information availability relating to these assets.

This is a material issue which impacts Kent County Council as the Council reports to hold over £600m of infrastructure assets as at 31 March 2021. In November 2022, an amendment to the Local Authority Capital and Finance regulations was laid before Parliament.

This amendment allowed Local Authorities when derecognising components of infrastructure assets to determine the relevant amount as nil. This, combined with a CIPFA Code update to remove the requirement to report the gross book value of infrastructure assets enables KCC, and other Highways Authorities, to produce materially accurate and compliant accounts.

The amendment to the regulation came into effect on 25 December 2022 and management are currently in the process of preparing revised accounts on that basis.

Value for Money

In July 2022 we issued our Audit Plan for the 2021/22 audit. This Audit Plan included the outcome of our risk assessment of the Authority's arrangements to secure value for money (VfM). At this stage, we identified 1 risk of significant weakness as detailed below:

1. the risk that the Council's arrangements in relation to SEND and EHCP services are not effective to ensure financial sustainability

Following the Audit Plan, we have continued to carry out risk assessment procedures taking into account events and circumstances both internal and external to the Authority. As reported in our November 2022 progress report, this work identified a new risk of significant weakness in relation to financial sustainability as detailed below:

2. the risk that the Council's arrangements in relation to identifying and delivering savings are not effective to ensure financial sustainability

Progress at January 2023 (cont.)

The AGS published with the draft financial statements is currently being revised to reflect on issues that have come to light in recent months. We expect the AGS to identify issues in relation to governance and decision making. As part of our ongoing VfM risk assessment, we will need to review this to determine whether it gives rise to another risk of significant weakness that requires additional work. We are currently in active discussions with officers on this issue.

With the exception of the above, our work on Value for Money is nearing its completion. We have carried out a desktop review of relevant documents and held a series of interviews with stakeholders across the organisation. We expect to issue our Annual Auditor's Report in February 2023.

Events

Each year, Grant Thornton host a series of Chief Accountant Workshop aimed at providing guidance to practitioners in the preparation of their annual financial statements. The workshops bring together practitioners across the sector to share best practice and discuss emerging issues. We have invited members of your finance team to these events that are scheduled to take place in February 2023.

Audit Deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Governance & Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	July 2022	complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the December Governance & Audit Committee</p>	January 2023	Scheduled now for Feb 2023
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	January 2023	Scheduled now for Feb 2023
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	March 2023	Not yet due

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2020/21 Deliverables	Planned Date	Status
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work. This was presented in April Governance & Audit Committee.</p>	April 2022	Complete
<p>Teachers Pensions Scheme – certification</p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform. We are still awaiting supporting data from the Council's contractor before we can complete this work</p>	December 2022	In Progress

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

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Public Sector

A dark purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

Local government procurement and contract management – Grant Thornton

More than a third of all UK government spending on goods and services is spent by local government, so it is important that councils have effective arrangements for procurement and contract management.

The sector's ongoing focus on efficiency and other priorities, such as net zero and local growth, mean that local government procurement has a rate opportunity to make a difference to the wider government agenda.

Our latest review of auditor reports shows that not all councils have the right governance arrangements in place, or deploy the appropriate skills and resource. Where things go wrong there are potentially significant risks to public money and service delivery.

The analysis sets out five key themes for ensuring good practice:

- Strategic planning
- Internal control
- Time, technical expertise, and people
- Commercial awareness
- Contract management



Read the full report here:

[Local government procurement and contract management: Lessons learned | Grant Thornton](#)

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

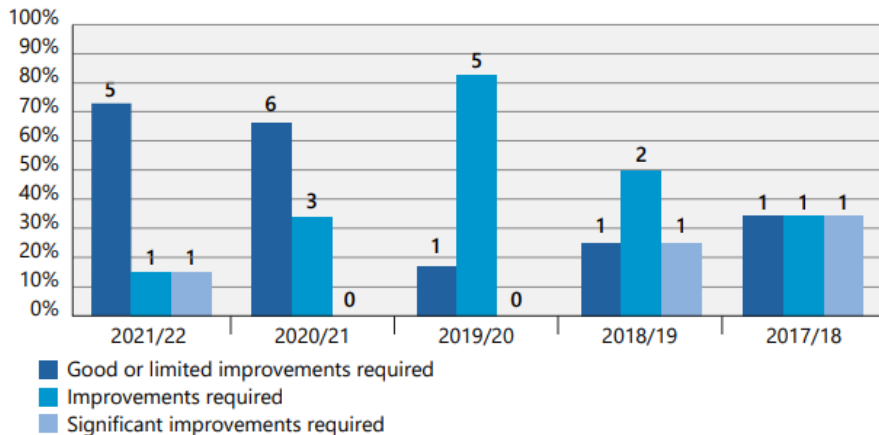
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a ‘major’ local audit and the FRC’s report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either ‘good’ or ‘generally acceptable’, but one file ‘required improvement’.

The ICAEW identified one of our files as requiring ‘Improvement’ – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years’ review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams’ work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found [here](#).



Financial Reporting Council



Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found [here](#)



Grant Thornton – Nearly 60 councils at risk of ‘running out of money’ next year

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts.

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will “continue to unwind through the long tail of Covid-19” with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: “Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

“Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils’ financial sustainability in the face of economic instability.

“Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up.”

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector’s ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: “With no spending review and no fair funding review, CIPFA shares Grant Thornton’s concerns about the financial sustainability of some in the sector.

“While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector.”





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