

Kent County Council Audit Plan

Year ending 31 March 2021

April 2021



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Key matters

Factors

Vision and Strategy

In December 2020, the Council published its Interim Strategic Plan setting out the key priorities for the next 18 months. This, however, was not the original plan. In March 2020, following months of development, the Council was poised to adopt 'Kent's Future – Our Priority' a five-year plan. Sadly, due to the significant impact of the coronavirus pandemic, the Council took the decision to pause and take stock. It recognised that it needed to be agile and respond to the immediate crisis whilst also taking the necessary time to understand the longer term ramifications of the pandemic so that it may plan accordingly. This therefore gave birth to the 18-month strategic plan. Development of a new 5 year plan is due to start later in 2021.

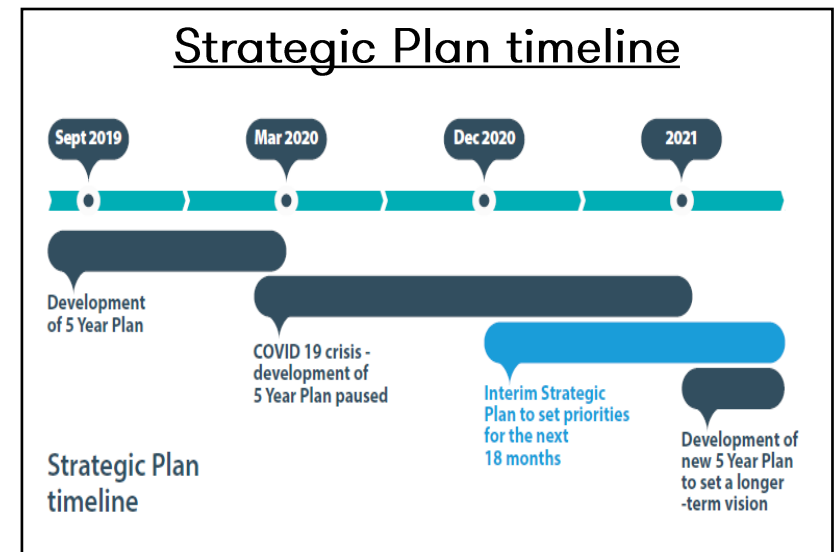
The Interim Strategic Plan sets out the five main challenges the Council believes it is facing over the next 18 months, and what it plans to do to address them:

- ❖ Financial Challenge – addressing the significant budget gap
- ❖ Economic Challenge – support growth and investment during the current and predicted economic downturn
- ❖ Demand Challenge – KCC has an aging demographic increasing demand in several services lines
- ❖ Partnership Challenge – building stronger relationships with partners that endure post pandemic to improve efficiency
- ❖ Environment Challenge – tackling the climate emergency

The Interim Strategic Plan is taken forward in two ways. The first is through the Strategic Rest Programme (SRP). The SRP is the drawing together of a number of significant change projects across the Council with the aim of delivering efficiencies, improving service delivery and reducing costs. The second is the Divisional and Service Business Plans. This is where actions not included in the SRP will be taken forward. The monitoring of the Interim Strategic Plan will be carried out through the business as usual governance.

Our response

- As part of our Value for Money work, we will consider your governance arrangements to effectively monitor, scrutinise and the extent of oversight with regards to the delivery of the Interim Strategic plan and the development of a new five year plan which factors in longer term impacts of the pandemic



Key matters cont.

Factors

Finances

The Council's financial position over the coming years is challenging. This was already the case before the Covid-19 pandemic with growth pressures in demand led services, changing economic conditions and a much greater reliance on income generated locally. The pandemic has resulted in additional spending pressures and a hit to the Council's income streams. In the short term the government is providing financial support to meet some of these pressures, but there is little certainty as to how long this funding will continue. The 2020-21 forecast position on the revenue budget as at 31 January 2021 shows an underspend of £25.8m. This is split £14m on baseline directorate budgets and £11.8m on the Covid-19, a budget of £72.2m held corporately but for the use by directorates. Management have stressed that the £14m underspend on baseline directorate spending is not an indication for future spending level nor is it evidence of recurring savings. Whilst the underspend is encouraging, it is primarily caused by Covid-19 and does not fully capture the continued impact of the third lockdown. The school's delegated budget continues to have the highest non Covid-19 overspend (£34.8m) as a result of high demand and high cost per child of High Needs Placements.

The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed. The Fair Funding Review and Business Rate Retention consultations are now due to conclude in 2022/23 at the earliest. In uncertain times, the Medium-Term outlook is based on a number of potential scenarios. In the central case (not necessarily the most likely) the anticipated budget shortfall over the years 2022/23 to 2023/24 is circa £78m. This rises to £175m in the downside scenario. Whilst the level of available revenue reserves is reasonable compared to KCC's nearest neighbours, the prospect of a £175m budget gap would have a significant impact on the Council's financial sustainability.

The Council has closed the budget gap for 2021/22 and is proposing a balanced budget. There are however risks to delivering the balanced budget as it assumes the delivery of £9m of Transformation Savings, £5m of additional income and £10m of efficiencies primarily from procurement. Furthermore, the budget also requires the net one-off use of revenue reserves of £11m and includes the maximum uplift in Council Tax of 4.99%, with the 3% increase for Social Care precept. In our view the Council has demonstrated good practice in that KCC is crystal clear that Government funding assumptions both now and in future are underpinned by all councils taking advantage of the maximum tax rises permitted without a referendum.

In your Interim Strategic Plan, the Council set out four key actions to address issues of financial sustainability:

- ❖ Use evidence and resident feedback to take difficult decisions to find the necessary savings for the 2021/22 budget, while maintaining a longer-term view on our priorities and ambitions for the county. These will be developed in our new 5 Year Plan during 2021 in consultation with residents.
- ❖ Over the medium-term, deliver the Strategic Reset Programme to improve our efficiency and the quality of experience for service users, residents and staff.
- ❖ Learn from other Local Authorities where the spend is lower and they achieve similar outcomes to Kent.
- ❖ Review our capital strategy and deliver a sustainable 10-year capital programme that reflects our strategic priorities, so we invest in the right infrastructure for the future, including highways, economic development and technology.

Our response

- We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our audit in completing our Value for Money work.
- We will consider your arrangements for the effective use of data to make informed business decisions as part of our audit in completing of Value for Money work

Key matters cont.

Factors

Transformation and Innovation:

The arrangements to enable the Council to change and adapt are critical to its long-term effectiveness. The pace of change has never been this fast and yet it will never be this slow again. Change is no longer a one-off event but rather it is a core part of business as usual.

The Council is planning to invest over £1bn over the next three years as part of its capital strategy. Much of this business as usual spend to maintain existing services but the Council has identified amounts to invest to deliver long term savings and to deliver a better service to its residents. The arrangements to identify, monitor, report and deliver both financial and non-financial benefits is fundamental to ensuring the Council achieves Value for Money.

Within the Strategic Delivery Plan, (2020-2023), the Council identified a cross-cutting priority entitled 'Modernising the council'. This focuses on business critical activities to transform the Council's property, technology, resident engagement and workforce. Work continues in this area and management are adapting existing projects to take account of the impact of Covid-19.

Change does not just happen at the strategic level via large scale transformation. Innovation, the ability to change or adapt or improve business processes at the local level is fundamental too. Covid-19 has been a catalyst for innovation across all businesses and sectors; as a Council, your staff have found new ways of delivering their service, often digitally enabled. You have put in place arrangements to empower, support and guide this innovation during the pandemic. As the economy moves towards recovery, understanding and deciding which new processes or ways of doing things you wish to 'Adopt, Adapt or Abandon' will enable you to realise the benefits, and reduce any disbenefits, arising from the pandemic.

Impact of Covid 19 pandemic

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the Council's normal operations. Throughout the pandemic the Council has managed to keep critical services going. The Council, alongside its district partners have delivered food parcels, accommodated rough sleepers, boosted hardship funds, assisted tenants struggling to pay rents and service charges, provided further support to residents in receipt of Council Tax Support and replenished food banks.

Since the start of the pandemic, the Council has supported District Councils who have been on the front line in distributing grants to businesses in Kent to help them offset the impacts of Covid-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020, and the Local Restrictions Support Scheme which was introduced with the tier system in late autumn 2020. The Districts have also delivered the 2020/21 business rates holidays promised by the government.

The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.

Our response

- We will consider the Council's arrangements for service transformation, innovation and cultural change as part of our audit in completing of Value for Money work
- We will consider 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 as part of our audit in completing of Value for Money work

Key matters cont.

Factors

Accounting and auditing developments

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, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8. As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid 19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pension fund's private equity, private debt and infrastructure and property investments which impacted both the Council's and Pension Fund position. We will monitor the position for the 31 March 2021 valuations.

Woodford:

In our 2019-20 Value for Money work for Kent County Council, we noted the relative lack of progress [at the time] the Council had made in relation to responding to the findings Internal Audit identified as part of their review of the Governance of the Pension fund initiated following the gating of the Woodford fund. Covid-19 was cited as contributing to the delay and so as part of our 2020-21 Value for Money work we will be updating our understanding of progress to date. Although the loss incurred from the Woodford fund is not significant in the context of overall scheme assets, it remains an area of focus for our Value for Money work for the main Council in the context of governance, decision making, use of experts and culture.

Our response

- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice
- We will consider the Council's governance arrangements, including a consideration of the implementation of findings from Internal Audit into the Pension fund governance arrangements as part of the main Council's audit in completing of Value for Money work

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent County Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent County Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Kent Holdco Ltd
- EDESCO Ltd
- Kent County Trading Ltd
- Cantium Business Solutions Ltd
- GEN2 Property Ltd
- Invicta Law Ltd
- Commercial Services Kent Ltd
- Kent Top Tempts Ltd
- Commercial Services Trading Ltd

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The risk that the valuation of land and buildings in the accounts are materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Introduction and headlines cont.



Materiality

Group

We have determined planning materiality to be £37m for the Group (PY £35m), which equates to approximately 1.5% of your Group prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.85m (PY £1.75m).

Council

We have determined planning materiality to be £36m for the Council (PY 34m), which equates to approximately 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.8m (PY £1.7m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have 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.

Audit logistics

Our interim visit took place in March 2021 and our final visit will take place in June – September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £191,432 (PY: £173,712) for the Council, subject to the Council delivering a good set of financial statements and working papers. This fee is also subject to agreement with PSAA under the terms of our contract with them.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Kent County Council	Yes		<ul style="list-style-type: none"> We have detailed the risks for the audit of this entity on pages 11 to 13 	Full scope audit performed by Grant Thornton UK LLP
Commercial Services Kent Ltd	No		None	<ul style="list-style-type: none"> Audit of expenditure, carried out by the component auditor, which will then be reviewed by the group audit team.
Kent Holdco Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Group audit scope and risk assessment cont.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
EDSCO Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Kent County Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Cantium Business Solutions Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
GEN 2 Property Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Invicta Law Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Kent Top Tempts Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Commercial Services Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.

Key changes within the group:

- During the year the group structure changed such that all subsidiaries, with the exception of Kent County Council, are consolidated into Kent Holdco Ltd
- Bishop Fleming have now been appointed the component auditor for all subsidiaries.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to significant risks of material misstatement of the group financial statements
- Analytical procedures at group level

Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council and Group	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Therefore, we do not consider this to be a significant risk for Kent County Council or the Group</p>	
Management over-ride of controls	Council and Group	<p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (Rolling revaluation)	Council and Group	<p>The Authority revalues 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 involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified 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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engage 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. • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assess the value of a sample of assets in relation to market rates for comparable properties.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council and Group	<p>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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,363 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Update 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. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test 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. • Undertake 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. • Obtain assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	Council and Group	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity is required to meet financial targets.</p> <p>Having considered the risk factors relevant to Kent County Council and the Group and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 11 relating to revenue recognition apply.</p> <p>We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 11.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Perform testing over post year end transactions to assess completeness of expenditure recognition. • Test a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Governance and Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures cont.

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings
- Valuation of investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- The Council's share of the provision for business Rates Appeals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- **What the assumptions and uncertainties are;**
- **How sensitive the assets and liabilities are to those assumptions, and why;**
- **The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and**
- **An explanation of any changes made to past assumptions if the uncertainty is unresolved.**

Planning enquiries

As part of our planning risk assessment procedures we have sent inquiries to the management that will be presented at the Audit and Governance Committee as part of our Informing the audit risk assessment report. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £37m (PY £35m) for the group and £36m (PY £34m) for the Council, which equates to 1.5% of your prior year gross revenue expenditure plus interest payable. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £100k for Senior officer remuneration and related party transactions.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

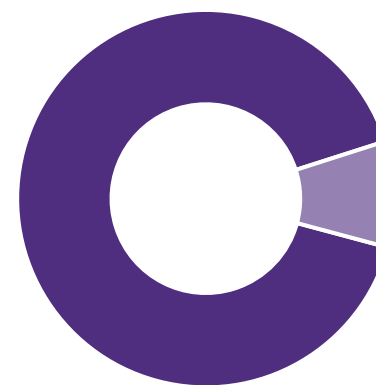
Matters we will report to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £xm (PY £xm).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£2,469m group
£2,441m Council



■ Prior year gross operating costs

Materiality



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, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with 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 three specified reporting criteria. These are as set out below:



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



VFM areas of focus

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The Local Government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain and this lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- 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.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



Paul Dossett, Key Audit Partner



Paul is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Governance and Audit Committee, the Corporate Director and the Chief Financial Officer. He will share his wealth of knowledge and experience across the sector providing challenge and sharing good practice. Paul will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit work. Paul will sign your audit opinion.



Parris Williams, Senior Manager

Parris is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Parris will be responsible for the delivery of our work on your arrangements in place to secure value for money.



Harpaul Lachhar, Assistant Manager

Harpaul will support Parris in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will lead the on-site virtual delivery of the team and be the first point of contact for the finance team. He will also carry out first reviews of the team's work and also oversee the review of the Whole of Government Accounts

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- Produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement.
- Ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- Ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing. These reports should be cleansed so that reversing transactions are removed.
- Provide debtor and creditor listings that are the balances outstanding at the year end
- Ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- The Council's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used.
- Respond promptly and adequately to audit queries.

Audit fees

PSAA awarded a contract of audit for Kent County Council to begin with effect from 2018/19. The fee agreed in the contract was £120,062. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

The 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £28,870. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been shared with the Director of Finance. All fees are subject to approval by PSAA and we would note that MHCLG agreed to provide £15m to fund the increased costs of local audit in its response to the Redmond Review in December 2019.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Kent County Council Audit	£128,862	£173,712	£191,432
Total audit fees (excluding VAT)	£128,862	£173,712	£191,432

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£120,062
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£13,500
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£4,000
Group consolidation	£4,000
Audit fee 2019/20*	£151,062
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£28,870
Increased audit requirements of revised ISAs	£11,500
<i>Proposed increase to agreed 2019/20 fee</i>	£40,370
Total audit fees (excluding VAT)	£191,432

*The final audit fee for 2019-20 includes £22,650 for the impact of Covid-19. This is a one-off issue and therefore is excluded from the baseline fee for 2020/21.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Independence and non-audit services cont.

Other services

Other services provided by Grant Thornton are detailed below:

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.






None of the services provided are subject to contingent fees.

Service	Fees £	Threats	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.
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.









Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance



The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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