

Kent County Council Audit Progress Report

Year ending 31 March 2022

July 2022



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Introduction

Your key Grant Thornton team members are:

Paul Dossett

Key Audit Partner

T 020 7728 3180

E Paul.Dossett@uk.gt.com

Parris Williams

Senior Manager

T 020 7728 2542

E Parris.Williams@uk.gt.com

Hameem Gulraiz

Assistant Manager

T 020 7728 2078

E Hameem.Gulraiz@uk.gt.com

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/en/services/public-sector-services/>

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 July 2022

Financial Statements Audit

We undertook our initial planning for the 2021/22 audit in March 2022. We have worked closely with management and finance officers during initial planning to support the audit process running smoothly. Detailed progress on the initial planning work was communicated to you in the last progress report dated April 27, 2022 and overall status remains 'On track'. Since then we have completed review of IT General Controls and we did not identify any significant deficiencies.

We will progress work on several key issues over the summer and the full audit team will begin their work on your draft financial statements from October 2022.

The Audit Plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements is agreed with management and is included as a separate item in the agenda of this meeting for approval.

We will report our work in the Audit Findings Report and aim to issue our opinion on the Statement of Accounts by December 2022.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. The Department for Levelling Up, Communities and Housing (DLUHC) states that they intend, subject to consultation, to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts.

Key accounting developments – infrastructure assets

In recent months, 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.

As a sector wide issue, CIPFA has established a task and finish group to address the issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure. In addition, CIPFA launched an urgent consultation on temporary changes to the code to resolve the issue.

As at the date of writing, the sector is awaiting a proposed resolution to the issue from CIPFA but in the meantime, preparers of Local Authority accounts must continue to comply with the CIPFA Code and report infrastructure assets gross and derecognize assets components on replacement.

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. Your finance team are aware of the issue and have responded to CIPFA's consultation. There is regular dialogue between us and your finance team on the issue to ensure recent updates/guidance is actioned as soon as possible.

Value for Money

The Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

Progress at July (cont.)

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in March 2023.

Other areas

Meetings

We have held regular meetings with key finance staff since initial planning where we have discussed emerging developments including infrastructure assets and ongoing CIPFA consultation on it. We have also used these meetings to discuss up and coming issues relating to the Authority and the audit which has also enabled an open and transparent working relationship and assisted with a smoother audit process.

We also met with your Head of Paid Service in July 2022 to discuss the Authority's strategic priorities and plans and the discussion was useful context for our understanding.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (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.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We continue to discuss this with your s151 Officer, including any proposed variations to the Scale Fee set by PSAA Limited, and will communicate this with the Governance & Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

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	Included as a separate agenda item
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the December Governance & Audit Committee</p>	December 2022	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	December 2022	Not yet due
<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
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



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