

Kent County Council Audit Progress Report and Sector Update

Year ending 31 March 2022

November 2022



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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 November 2022

2021/22 financial statements audit update

In March 2022, we carried out our risk assessment and planning work for the 2021/22 audit. Detailed progress on this work was communicated to the Governance and Audit Committee in April 2022. Our work did not identify any issues that we needed to bring to your attention and we communicated that our overall assessment of the audit was 'On track'.

Since then, 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 still progressing and we have not identified any issues that we need to bring to your attention at this stage.

Our substantive audit work is scheduled to complete in December, enabling us to issue our audit opinion following the G&A in January 2023. We continue to assess the status of the audit as being 'On track'.

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

Infrastructure assets update

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.

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.

As at the date of writing, the sector is awaiting DLUCH to propose a statutory override to Parliament in respect of Infrastructure assets later this month. This should allow audit opinions (some of which have delayed throughout 2022) to be completed for relevant authorities. This includes Kent's 2021/22 financial statements.

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. This work has 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 November (cont.)

Background and auditor considerations in relation to the new risk of significant weakness

County Councils across the UK have begun to report significant shortfalls in their 2023-24 budgets. A recent article by the Local Government Chronicle conducted research into 17 County Councils and found that the combined deficits are expected to reach over £500m. The full article can be found here [Revealed: Counties face combined £500m budget black hole | Local Government Chronicle \(LGC\) \[lgcplus.com\]](https://www.lgcplus.com/news/2022/10/27/revealed-counties-face-combined-500m-budget-black-hole/).

On 27 October the County Councils Network (CCN) issued a press release that stated:

“the 40 largest county and unitary authorities have reported a forecast £3.5bn increase in costs over this year and next year due to rising inflation and demands for council services. This is more than double previous estimates over the same period. These additional costs mean councils are already facing a real-terms cut in funding this year and next, before the possibility of further reductions which may be imposed as part of the government’s Medium-Term Financial Plan. Last year’s Spending Review provided an uplift in funding for key services, but this has been wiped out by rising inflation; with two-thirds of councils say they are going to overspend their budgets this year without making savings and cuts. Faced with £1.78bn of inflationary and demand costs in 2023-24, councils are already having to consider further service reductions”

For Kent County Council, the combination of inflationary pressures, higher than expected demand and non-delivery of savings has resulted in a forecasted £51m overspend by the end of Q1 of 2022/23. This deficit is not as a result of a one-off transaction, rather, it marks a significant deterioration in the underlying financial position of the Authority. If decisive, coordinated action is not taken and implemented, the status quo is likely to take the authority into significant financial difficulties over the medium term. We understand management are working to implement actions to address this issue including potential policy changes to bring the deficit down to a manageable level.

It is for this reason as to why we have identified a risk of significant weakness around the arrangements to identify and deliver savings.

Meetings and communication

In October, we met with the Corporate Director of Finance to discuss a range of topics including financial sustainability, governance matters and progress of the audit.

We are also scheduled to meet with your Chief Executive on 10 November as part of our regular quarterly liaison meetings.

There is also daily communication between your finance team and the audit team as part of the final accounts process. This communication is open, transparent and effective to ensure the smooth running of the audit.

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	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	January 2023	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

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

The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

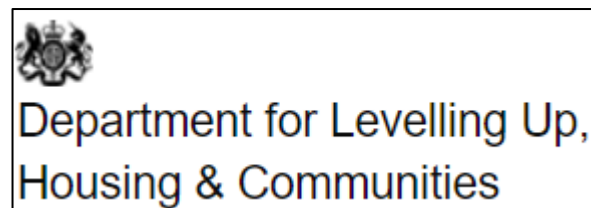
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

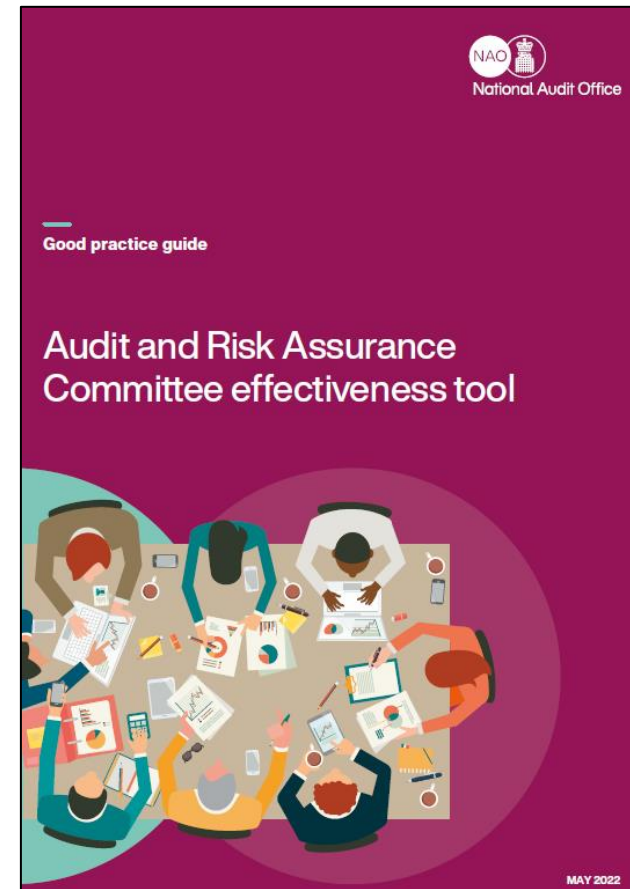
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



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