# The Audit Findings for Kent County Council

**Year ended 31 March 2022**

February 2023

# Contents

**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**
Manager
T 020 7383 5100
E Hameem.Gulraiz@uk.gt.com



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

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on the 28 February 2023

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 28 February 2023

# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

## Financial Statements

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

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

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

Our audit work was completed remotely during October 2022 to February 2023. As communicated in our Audit Plan, we agreed with management to start our audit field work in October 2022. This is 3 months later than when we have historically started (June). The reason for starting in October was because as a firm, Grant Thornton made a national decision to prioritise addressing the backlog in Local Government opinions before starting 2021-22 opinions. The impact of starting 3 months later isn't just that everything is pushed 3 months to the right. It is more challenging for your finance team to service the audit during this period because it then takes place at the same time as other key priorities i.e., budget setting and preparation for the 2022-23 financial statements.

Your finance team have engaged well with us during this period and we have had to be flexible on both sides to overcome a series of challenges, not least the issue around infrastructure assets. The Council's single entity draft financial statements alongside a full suite of working papers were submitted for audit in line with our agreed timetables. As in previous years, the quality of the financial statements and supporting working papers continues to be high. This is in contrast to what we see in other parts of the country where the quality of financial reporting continues to decline. Members should both recognise the quality of the financial statements produced by officers and ensure that appropriate succession plans are put in place if these high standards are to be maintained. Response times to our queries were generally good, although in some areas, particularly where information was being sought from officers or stakeholders outside of finance there were some delays. One example was obtaining external confirmations from your financial institutions on investments held as at the balance sheet date.

Our findings are summarised on pages 6 to 28. We have identified 1 adjustment to the financial statements that has resulted in a £24.9m gain in the CIES prior year figures. The adjustment arises following our review of the prior period restatement set out in the draft financial statements. Our review identified that that there was a further £24.9m of accumulated depreciation relating to infrastructure land that had been incorrectly depreciated in prior years. Management have corrected for this by reversing accumulated depreciation which gives rise to the gain in the CIES. It is important to note however that this gain has no impact on the General Fund because the gain is moved to the unusable reserve 'Capital Adjustment Account' as required by the statute. In other words, the gain doesn't impact decisions the Council will make regarding Council tax or generally around financial sustainability. For more information see Appendix C for the adjustment and page 13 for additional narrative.

We have also identified x misstatements which management have decided not to adjust for. Individual and in aggregate these misstatements are not material to the financial statements. The net impact of these misstatements are £18.6m and details of these can be found in Appendix C.

Two issues arose during the audit which we feel is important to give prominence to. The first issue pertains to a multi-million pound Inland Boarder Facility being built by KCC in Sevington which is funded by Central Government. Our audit work in this area uncovered that the control environment put in place by KCC for this project was different to that of other KCC projects. Key elements of assurance that we would expect on a project of this size i.e. an independent quantity surveyor signing off stages of completion could not be made available to us during the audit. Whilst we obtained sufficient appropriate evidence that the financial statements are free from material misstatement, we have identified a high priority control recommendation. The control recommendation is set out in Appendix A and further details on the issue are set out on page 15. Funding received from third parties to support expenditure undertaken by KCC should never be a reason for a reduction on the control environment.

The second relates to an issue we raised in the prior year audit around a £4m invoice to the NHS. We followed up on this issue during the year to determine whether the risk of it being credit noted crystalised. On 29 March 2022, a £1.5m credit note was issued against this invoice with the residual £2.5m was recognised as revenue. Whilst we are satisfied that there is no misstatement in the financial statements, we feel it is important to present the facts to you as 'Those Charged with Governance' (TCWG) as it pertains to a control weakness. Further details on this issue is set out on pages 16 and 17.

*Continued overleaf…*

# 1. Headlines - continued

## Financial Statements

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

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

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

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

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

- response from our auditor's expert in relation to the reasonableness of your valuation expert's approach to setting the remaining useful life assumption for your depreciation accounting estimate;
- response to a query raised on one sample within our testing of grants received in advanced;
- completion of our audit work on PPE valuations, group audit procedures, equity investment testing and PFI;
- completion of responses to our firm's technical review of your accounts. This review is in line with our firm's risk management procedures to perform a technical review on Local Authority financial statements once every three years;
- awaiting a formal response from management in respect of an objection on the financial statements
- final internal senior management and quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

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

Our anticipated audit report opinion will be unmodified.

# 1. Headlines

## Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix F to this report. We expect to present our auditor's annual report to the Governance ad Audit Committee on March 16th 2023 and finalise by the end of March.This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date, we have identified 5 risks of significant weakness as explained below.

1. Risk of significant weakness around the arrangements to control spending
2. Risk of significant weakness around the arrangements to ensure financial sustainability of Special Education Needs and Disability (SEND) services. This is a risk of significant weakness that was first identified and communicated in our 2020-21 VfM work.
3. Risk of significant weakness around the arrangements for decision making which links to the issues raised by your Monitoring Officer in the most recent AGS, in particular, the one around members and officers 'staying in their lane'.
4. Risk of significant weakness around the arrangements to respond to the findings of Ofsted and CQC around the provision of KCC's SEND services. This is separate to the risk described in (2) as this is around operational performance rather than financial sustainability.
5. Risk of significant weakness around the arrangements for procurement. This links to issues identified by your internal auditors on SEND transport services and some of the underlying weakness in arrangements or compliance to those arrangements.

Our work on VfM, including our work on the five risks set out above is nearing completion. A draft report has been shared with management and we are now in the process of finalising the report..

## Statutory duties

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

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

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

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements and work on Whole of Government Accounts (WGA). We expect to complete our VfM work by the end of March 2023 and work on WGA by the end of May.

We will also need to complete any work in relation to the objection on the accounts – we are first waiting on a response from management on this as set out on page 4.

## Significant Matters

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

# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on the 28 February 2023.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

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

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

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries set out on page 4 being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 28 February 2023.

### Acknowledgements

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

# 2. Financial Statements

### Our approach to materiality

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

In our Audit Plan communicated in July 2022, we set materiality at 1.5% of the prior year gross revenue expenditure plus interest payable in the prior year audited accounts (£2,771m).

In the 2021/22 draft accounts, gross revenue expenditure increased to £2,879m. As expenditure only increased marginally, we took the judgement to keep materiality levels the same as those we set at the Audit Plan.

Group materiality has also been kept the same as what we communicated in our Audit Plan at £41,500,000.

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

| **Group** | [redacted] | | |
|---|---|---|---|
| | **Planning (£)** | **Final (£)** | **Qualitative factors considered** |
| Materiality for the financial statements | 41,500,000 | 41,500,000 | Same as above |
| Performance materiality | 31,125,000 | 31,125,000 | Same as above |
| Trivial matters | 2,075,000 | 2,075,000 | Same as above |
| Materiality for senior officers' remuneration and related parties | 100,000 | 100,000 | Same as above |

# 2. Financial Statements - Significant risks

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

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

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **Management override of controls**<br>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.<br><br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. | Council and group | We have:<br>• Evaluated the design effectiveness of management controls over journals.<br>• Analysed the journals listing and determined the criteria for selecting high risk unusual journals.<br>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.<br>• Gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence.<br>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br><br>**Control finding:**<br>The journal control environment for KCC does not include a system of approval or authorisation. What this means is that anybody who has been granted access to the ledger system is able to prepare and post a journal without it being reviewed or authorised by another person. Whilst we are satisfied that access to the ledger is restricted to appropriate people, we have identified the lack of journal authorisation as a deficiency in the design of the control environment.<br><br>KCC is not an outlier as other Authorities have similar arrangements. Nonetheless, best practice would be for all journals to go through a review and approval process, ideally automated through a workflow. It is important to note that this is not a new issue - the journal control environment is unchanged from prior years. The existence of this journal control deficiecy has not prevented us from obtaining the assurances we need over the ISA 240 risk.<br><br>We have discussed the matter with management who are satisfied that there are sufficient mitigating controls and that they are comfortable with the level of residual risk. As required by the ISA's and to ensure transparency, we are communicating this control deficiency to ensure all concerned are aware of the issue. The control issue and recommendation is set out in Appendix A.<br><br>**Conclusion:**<br>Our work has not identified any material issues in relation to this risk. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **The revenue cycle includes fraudulent transactions**<br>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.<br>(rebutted) | Council and Group | Having considered the risk factors set out in ISA240 and the nature of the Council and the Group's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition.<br>• Opportunities to manipulate revenue recognition are very limited.<br>• The culture and ethical frameworks of local authorities, including that of Kent County Council, mean that all forms of fraud are seen as unacceptable.<br>Therefore, we do not consider this to be a significant risk for Kent County Council or the Group<br><br>NB: Although we have rebutted this risk, we have still performed substantive work on all relevant assertions of revenue where those revenue streams are material to the financial statements. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
| --- | --- | --- |
| **Valuation of land and buildings (Rolling revaluation)**<br><br>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.<br><br>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.<br><br>On 3 February 2022 CIPFA LASAAC launched a consultation on proposals for an update of the 2021/22 Code relating to the approach to measurement of operational property, plant and equipment. This consultation has now closed and CIPFA have confirmed no changes to the Code in respect of the valuation of PPE. | Council and Group | We have<br>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.<br>• Evaluated the competence, capabilities and objectivity of the valuation expert.<br>• Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.<br>• Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation.<br>• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements.<br>• Assessed the value of a sample of assets in relation to market rates for comparable properties.<br>• Assessed the value of a sample of assets held at Depreciated Replacement value – testing provided assurance on the reasonableness of key assumptions used by your valuer including the build cost, obsolesce rate and floor areas.<br>• Reviewed assets not revalued to obtain assurance there is no material difference between the carrying value and current value of those assets as at the balance sheet date.<br><br>**Conclusion:**<br><br>Subject to the completion of the outstanding work set out on page 4, our work has not identified any material issues in relation to this risk. |

# 2. Financial Statements - Significant risks

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **Valuation of the pension fund net liability (£1,559 million)**<br><br>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.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,559 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br><br>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.<br><br>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.<br><br>The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.<br><br>In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk. | Council and Group | We have:<br><br>• Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.<br>• Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.<br>• Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.<br>• Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.<br>• Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.<br>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.<br>• We have also conducted work to satisfy ourselves that the movement within the IAS 19 report described as 'experience' is reasonable and appropriate<br><br>**Conclusion:**<br><br>Our work has not identified any material issues in relation to this risk. |

# 2. Financial Statements – Other risks identified

'Other risks' are risks to the financial statements which we have assessed as not being significant under ISAs. In our Audit Plan we communicated that we planned to carry out certain procedures in relation to two 'other risks'. See below details of the results of these planned procedures and conclusions obtained.

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **Testing on expenditure**<br>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 where an entity is required to meet financial targets.<br><br>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 9 relating to revenue recognition apply.<br><br>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 8. | Council and Group | We have:<br>• Performed testing over post year end transactions to assess completeness of expenditure recognition.<br>• Tested a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.<br><br>**Results:**<br><br>As part of our sample testing around the completeness of expenditure, we identified four payments made post year end that related to activity in 2021/22 and therefore should have been accrued. The total misstatement identified was £345k. To evaluate the impact of this error, we extrapolated the error rate in our sample over the population being tested. The extrapolated error was £7,034k. On that basis, we are satisfied that there is not a material misstatement in the accounts. As the extrapolated error exceeds triviality we have reported it to you as an unadjusted misstatement – see Appendix C.<br><br>**Conclusion:**<br><br>Our work has not identified any material issues in relation to this risk. |

# 2. Financial Statements – Other risks identified

| Risks identified in our Audit Plan | Risk relates to | Commentary |
|---|---|---|
| **Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note**<br><br>Infrastructure assets includes roads, highways, streetlighting and coastal assets. Each year the Council spends circa £80m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £634m which is over 15 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost.<br><br>**Development during 2021/22:**<br><br>As we reported in our November 2022 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.<br>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.<br><br>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 have updated the accounts to ensure that the financial statements comply.<br><br>For the avoidance of any doubt, we **have not** assessed the risk on infrastructure assets to be significant | Council and Group | **Prior period adjustment on infrastructure assets:**<br>The initial draft financial statements included a £140m prior period adjustment (PPA) on infrastructure assets. The impact of the adjustment is that PPE increased by £140m with the other side of the transaction going to the Capital Adjustment Account which is an unusable reserve. The PPA arose because depreciation had been overcharged on infrastructure assets for several years which accumulated to a material error. Under IAS 8, material prior period errors should be amended.<br><br>**Audit response:**<br>We have performed the following:<br>• reviewed management's judgements and rationale<br>• considered whether the PPA is limited to just infrastructure assets<br>• consulted internally with our firm's central technical team<br><br>**Findings and conclusion:**<br>As part of our review we were satisfised with management's assessment and calculations of the error. We did however identify that a further £24.9m of depreciation had historically been charged in error as it related to Land. Management have therefore adjusted their prior period adjustment by a further £24.9m. This adjustment has no impact on useable reserves. This adjustment is captured in Appendix C.<br><br>**Review of useful economic lives:**<br>For 2021/22, management updated their accounting estimate in respect of the useful economic lives applied to infrastructure assets. Prior to 2021/22, management had depreciated all infrastructure assets over 20 years. For 2021/22, management carried out an exercise to disaggregate infrastructure assets into different components and obtain evidence from the service as to how long each component lasts.<br>We have reviewed management's work and we are satisfied that the updated useful economic lives for each asset class is reasonable. CIPFA also released guidance on the UELs for infrastructure assets. We have reviewed this against management's updated UELs and concluded that they are consistent. The change in UELs is made prospectively as it is a change in accounting estimate.<br><br>**Revised disclosure in light of new requirements:**<br>We have also reviewed the revised disclosures on infrastructure assets as required by the updates to the LG Code and the statutory instrument. We are satisfied that the new presentation in the financial statements is appropriate and compliant with the requirements. This adjustment is again captured in the disclosure amendments set out in Appendix C. |

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

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. The table below sets out the results of our work against the risks set out in the Audit Plan.

| Component | Individually Significant? | Risks identified | Planned audit approach | Findings and conclusions |
|---|---|---|---|---|
| Kent County Council | Yes | We have detailed the significant risks for the audit of this entity on pages 8 to 11 | Full scope audit performed by Grant Thornton UK LLP | Our findings are set out in this report and based on the work to date, we plan to issue an unmodified opinion in respect of the single entity financial statements |
| Commercial Services Kent Ltd | No | None | Audit of expenditure, carried out by the component auditor, which has then been reviewed by the group audit team. | None |
| Kent Holdco Ltd, EDSCO Ltd, Kent County Trading Ltd, Cantium Business Solutions Ltd, Gen 2 Property Ltd, Invicta Law LtD, Kent Top Tempts Ltd, Commercial Services Trading Ltd | No | None | Analytical reviews performed by Grant Thornton UK LLP. | None |
| Group consolidation | N/A | None | • To document our understanding of the consolidation process<br>• To review and test (where appropriate) intercompany eliminations<br>• To ensure intercompany eliminations are complete<br>• Perform an analytical review at the group level as part of our risk assessment process | We identified presentation misstatements pertaining to the intercompany eliminations. These are misclassifications only and do not impact the net reported position of the Group. These are set out in Appendix C – disclosure issues. |

# 2. Financial Statements – Key issues discussed with management

## Inland Border Facility at Sevington

Background:

In planning for border checks post-Brexit, the Government submitted a proposal for an Inland Boarder Facility (IBF) in Ashford (Sevington) that was approved by the Ministry for Housing, Communities and Local Government (MHCLG) in December 2020. The decision notice extended the use of the land at Sevington to be used by several different government departments including the DfT, HMRC and DEFRA. Despite this being a central government capital project, the government approached Kent County Council to procure contractors to construct the multi-million pound structure. We have been informed that the cost of Sevington is funded by government.

The site has been in use by the Department for Transport (DfT) as an Inland Border Facility since 4 January 2021. In February 2022, the DfT submitted updated proposals for Sevington Inland Border Facility to meet new operational requirements for the site. The capital work associated with this was also procured by Kent County Council. We understand the most recent forecast of the total capital costs associated with the Sevington project is circa £70m.

In Kent County Council's financial statements, capital spend on the Sevington project is reported as Revenue Expenditure Funded From Capital Under Statute (REFCUS). REFCUS includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset. In the case of Sevington, this is appropriate because KCC doesn't own the land nor does it have the right of use for the building. This is why the capital cost of Sevington isn't held on the balance sheet as an item of PPE.

Issue identified:

As part of our sample testing of REFCUS, we identified several large transactions pertaining to Sevington. As with all major capital projects, we requested for management to provide us with the supplier invoice to substantiate the capital spend. In addition, we also requested for management to provide us with evidence that an independent chartered surveyor issued a signed completion statement. Whilst we were provided with an appropriate supplier payment, management could not provide us with a signed off stage of completion certificate.

This is a control weakness because without that evidence, management cannot be assured that the supplier has completed the work to the required specification. It was explained to us that because this is a central government funded project, these control activities are being carried out at government level.

Audit considerations:

Whilst we are satisfied that there are no material misstatements in your financial statements in relation to Sevington, we have concerns that the governance and controls that KCC have put in place are not effective to mitigate the risk. Sevington is a sensitive, multi-million pound construction and the contract with the supplier sits with KCC (not Government). If control activities are happening at Government agencies, we recommend that KCC obtain and retain these assurances in writing prior to making payments. As it stands the Council is at risk of being party to potential inappropriate payments.

Conclusion:

We have discussed this issue with management and your internal auditors. We have raised a recommendation in relation to the specific issue we have identified as part of our testing – see Appendix A. Given what we have identified, we believe there is value in the Authority reviewing the wider control environment relating to the project management side of Sevington including arrangements to identify and mitigate conflicts of interest.

# 2. Financial Statements – Key issues discussed with management

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

**In our prior year audit, we communicated to you an issue in relation to a £4m invoice. For ease of reference, this is set out below.**

Description of the issue (2020/21):

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

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

Auditor considerations (2020/21):

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

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

The risk identified with this transaction (2020/21):

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

Additional work performed in (2020/21):

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

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

Conclusion (2020/21):

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

*Continued overleaf. . .*

# 2. Financial Statements – Key issues discussed with management

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

Update and fact pattern in 2021/22:

As part of our 2021-22 audit we have followed up on the £4m invoice. On 29 March 2022, a credit note for £1.5m was issued to the CCG in respect of the original £4m invoice. At the same time, £2.5m was journaled from the balance sheet to revenue.

In 2021-22, Kent & Medway CCG's surplus was £457k. All other things being equal, without the £1.5m credit note, the CCG would have been in deficit in their 2021-22 accounts which is technically unlawful*.

Evidence obtained:

We requested supporting documentation to substantiate both the £1.5m credit note and the £2.5m recognition of revenue. We were supplied with expenditure pertaining to costs associated with residential and nursing placements. Whilst the costs reconcile to the £2.5m, as no evidence has been supplied to explain what the original £4m invoice related to, we are unable to verify whether the recognition of revenue for this purpose is appropriate. Furthermore, the £1.5m credit note was explained as the balancing figure between what cost had been incurred and the original invoice. Management therefore made the decision to issue a credit note on this basis.

Additional work performed in (2021/22):

As a result of this issue, we performed the following additional procedures:

- Reviewed invoices raised to the NHS to identify additional instances of the £4m – no issues identified
- Reviewed credit notes issued to the NHS – no issues identified

The above procedures confirmed that the £4m is an isolated issue.

Conclusion and audit considerations:

In terms of the financial statements for 2021-22, we are satisfied that this issue does not present a risk of material misstatement. The issue is now closed and there will be no ongoing impact as no amounts are held on the balance sheet as at 31 March 2022. Having said that, the risk that this invoice was used to facilitate the NHS organisation moving a surplus from one year to another crystalised. We cannot conclude whether this was the intention of management due to the lack of any evidence around the purpose and nature of the arrangement to begin with. We have requested management confirm to us in the signed management letter of representation that all information pertaining to the £4m transaction has been supplied to us.

We are communicating the facts to you to ensure transparency on this issue and to ensure the Authority puts in place our control recommendation to prevent invoices being raised without appropriate underlying evidence i.e. signed contract.

* The NHS Act 2006, as amended by paragraph 223H (1) of Section 27 of the Health and Social Care Act 2012 sets a statutory duty for CCGs to ensure that their expenditure in a financial year does not exceed their income (the 'breakeven duty').

# 2. Financial Statements – key judgements and estimates

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

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Land and Building valuations (including surplus assets) – £2,467 million | Other land and buildings comprises circa £2bn of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end for operational assets or fair value (FV) for assets designated as surplus.<br><br>The Council has engaged Wilks Head & Eve LLP (WHE) to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 81% of total assets were revalued during 2021/22. The valuation of properties valued by the valuer has resulted in a net increase of £183m. £174m of the gain has been taken to the revaluation reserve with the remaining £9m going through the Comprehensive Income and Expenditure Statement (CIES).<br><br>Management has considered the year end value of properties not re-valued in year (£484m). In particular, management has considered the potential valuation change in the assets based on the market review provided by the valuer as at 31 March 2022, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. | As part of our work we have:<br>• reviewed the land and buildings valuation estimate in line with ISA540 requirements and have no issues to raise;<br>• reconciled the fixed asset register to the ledger and the financial statements<br>• assessed management's valuation expert and found them to be competent, capable and independent; and<br>• verified the valuer's outcome against our independent auditor's expert valuation trend report.<br>• verified that management's judgement that the carrying value of assets is not materially different to the current value is reasonable. This has been done by setting an independent expectation of the difference using indices provided by Gerald Eve.<br>• assessed the reasonableness of alternative site judgements and assumptions<br>• assessed the accuracy and completeness of underlying information used to determine the estimate; and<br>• assessed the reasonableness of key underlying assumptions i.e. Build Costs. This assurance was provided to us by our auditor's expert.<br><br>**Conclusion:**<br>Subject to the completion of the outstanding work set out on page 4, our work has not identified any material issues in relation to this accounting estimate. | Light purple |

**Assessment**

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

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £1,559m** | The Council's net pension liability at 31 March 2022 is £1,559m (PY £1,635m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.<br><br>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £76m net actuarial loss during 2020/21. | • We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective.<br>• We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 21/22 roll-forward calculation carried out by the actuary.<br>• We have used PwC as our auditor expert to assess your the actuary's assumptions – see table below for our comparison of actuarial assumptions: | Light purple |

| Assumption | Actuary Value | PwC range | Assessment |
|---|---|---|---|
| Discount rate | 2.6% | 2.55 – 2.6% | ● |
| Pension increase rate | 3.2 % | 3.05 – 3.45% | ● |
| Salary growth | 4.2 % | 4.05 – 4.45% | ● |
| Life expectancy – Males currently aged 45 / 65* | Pensioners: 21.6<br>Future pensioners: 23.0 | Pensioners: 20.1 – 22.7<br>Future pensioners: 21.4 – 24.3 | ● |
| Life expectancy – Females currently aged 45 / 65* | Pensioners: 23.7<br>Future pensioners: 25.1 | Pensioners: 22.9 – 24.9<br>Future pensioners: 24.8 – 26.7 | ● |

- Continued overleaf

**Assessment**

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

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability – £1,635m**<br><br>**- continued** | | • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.<br>• We have confirmed there were no significant changes in 2021/22 to the valuation method.<br>• We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets.<br><br>Conclusion<br>Our work confirms that the decrease in the IAS 19 estimate is reasonable. | Light purple |

**Assessment**

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

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Minimum Revenue Provision - £57m | The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt – known as its Minimum Revenue Provision (MRP).<br><br>The Council's approach to the MRP is set out to Members as part of the Budget and council tax proposals each year. The basis for the charge is set out in Regulations and statutory guidance.<br><br>This year the MRP charge was £57m (2020/21 £59m). | Context<br><br>Before 2004, Whitehall issued UK Local Authorities with annual credit approvals, effectively setting a cap on each authority's borrowing. That system ended with the introduction of the prudential framework in 2004 which allowed Local Authorities to spend and borrow without approval.<br><br>A couple of years ago, the MHCLG (known now as DLUCH) published a policy paper which set out that they were "currently reviewing the statutory powers for capping borrowing and considering how and when we will apply these to protect local financial sustainability". It is clear then that the government is concerned about the financial sustainability of local authorities and so we have performed work around the minimum revenue provision (MRP) set by the authority to ensure not only that it complies with the agreed policy, but that the policy itself is reasonable to ensure the authority is able to repay borrowing in the long term.<br><br>Findings:<br><br>We have carried out the following work:<br><br>• Confirmed that the Council's policy on MRP complies with statutory guidance.<br>• Assessed that there are no changes to the Council's MRP policy in comparison to 2020/21<br>• Assessed and benchmarked the percentage of the Council's MRP charge against the opening capital financing requirement (4.49%). As this is above 2%, it falls within our 'Green' range – no concerns identified.<br>• Assessed and benchmarked the percentage of the Council's total debt against the capital financing requirement (82%). As this is below 100%, it falls within our 'Green' range – no concerns identified.<br><br>Conclusion:<br><br>Based on our findings, we are satisfied that the MRP charge complies with regulations and is set at a prudent level to repay borrowing over the long term. The MRP charge must remain under regular review, particularly in light of future capital spending plans. | Light purple |

# 2. Financial Statements - key judgements and estimates

| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| Depreciation (£98m) | Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Equipment including vehicles are depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant.<br><br>For existing assets the source data is the carrying value at the start of the year. For existing buildings this was provided by the valuer. For other existing assets it is the brought forward depreciated replacement cost. For new assets it is the purchase cost during the year. For buildings this is the revaluation performed at year end.<br><br>The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset.<br><br>There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year. | **Assets not depreciated in the year of acquisition:**<br><br>As we communicated in the prior year, management's accounting policy to not depreciate assets in the year it was brought into use is not consistent with the LG Code (4.1.2.41) which requires assets to be depreciatiated at the point in which they are brought into use.<br><br>We have performed work that confirms this departure does not lead to a material misstatement in the accounts. We have estimated the impact as £2.9m which is significantly below our materiality level.<br><br>**Remaining economic life assumption:**<br><br>For specialised assets valued under the 'Depreciated Replacement Cost' method, your valuer provides you with information on the remaining economic life (REL) assumption for each asset. The REL is the key assumption for a depreciation calculation as it sets out how many years the cost of the asset is depreciated.<br><br>Each year your valuer has assigned the same REL for each DRC asset at 44 years. According to your valuer, 44 years is the life of a DRC asset as new, and your valuer has formed the judgement that it is appropriate to depreciate your entire DRC portfolio on this basis because there is a system of repairs and maintenance both historically and into the future.<br><br>Our auditor's expert has communicated to us that in their view, this is an unreasonable judgement and one that does not satisfy the requirements to form the assumption based on its current condition. Our auditor expert does not believe it is appropriate to base the assumption on future events which are contingent i.e. future repairs and maintenance. What this means is that our auditor's expert considers the REL assumption used by the Authority to be optimistic and set too high.<br><br>As a result of this risk, we have done work to quantify the potential impact to determine whether there is a risk of material misstatement in the estimate. A sensitivity analysis was carried out based on a REL calculated from obsolescence data provided by your valuer. We were comfortable with using this data because our auditor's expert concluded that the obsolescence data used by your valuer was reasonable.<br><br>Using the obsolescence data, we arrived at a REL of 32 years. If this REL was applied to your asset base, the difference on your depreciation estimate would be £6m. As this is not material, we are satisfied that whilst your depreciation charge is optimistic, it is not materially misstated. We have included this difference in our schedule of unadjusted misstatements to ensure that when added to other misstatements, there isn't a material uncertainty in your financial statements. See Appendix C for details. | Blue – materially correct but includes optimistic assumption |

# 2. Financial Statements - key judgements and estimates

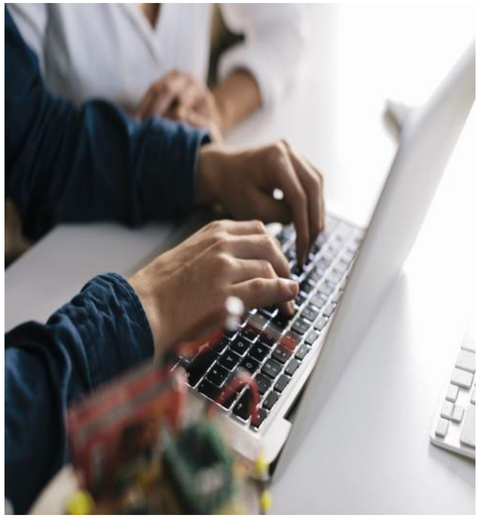
| Significant judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|---|---|---|---|
| PFI liability<br><br>(carrying value - £202m)<br><br>(fair value - £253m) | PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM , are accounted for as 'on-Statement of Financial Position' by the entity. The PFI liability is determined by the original financial model updated for inflation and relevant variations. The source data is derived from the financial model. Estimates are used for un-invoiced variations (or credits for insurance) based on estimates provided at the time of the variation.<br><br>In line with IFRS 13 requirements, in addition to the carrying value of the liability on the balance sheet, management must also disclose the fair value of the liability. Management has engaged an expert to estimate the fair value of the PFI liability (£253m).<br><br>There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year. | Our work in respect of the estimate of your PFI liability, including the fair value estimate has not identified any material issues. | Light purple |

# 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

| Issue | Commentary |
| --- | --- |
| Matters in relation to fraud | We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| Written representations | A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Governance and Audit Committee papers.<br>Specific representations have been requested from management in respect of the £4m invoice to the CCG and the subsequent credit note. The representation confirms that any and all relevant information pertaining to the transaction has been provided to us. |

# 2. Financial Statements - other communication requirements



| Issue | Commentary |
|---|---|
| Confirmation requests from third parties | We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent.<br>Positive confirmations were obtained for all relevant balances. |
| Accounting practices | We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We are satisfied that the Council's accounting policies, estimates and disclosures are reasonable having completed our work and confirmed several adjustments to the financial statements. |
| Audit evidence and explanations/ significant difficulties | All information and explanations requested from management is being provided as promptly as possible. Information and evidence which needs to be provided outside of the main finance team does however take longer. Your finance team are doing a good job to quality assess the information provided by services before it comes to us which reduces the amount of follow up queries we need to raise. |

# 2. Financial Statements - other communication requirements

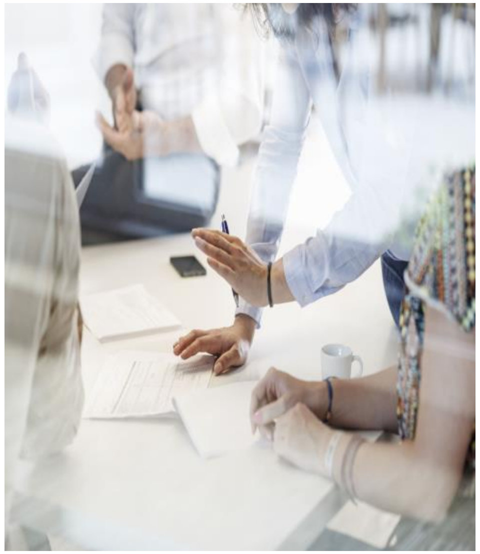
**Our responsibility**

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

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

# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| Other information | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No issues were identified from our work. |
| Matters on which we report by exception | We are required to report on a number of matters by exception in a number of areas:<br>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,<br>• if we have applied any of our statutory powers or duties.<br>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.<br>We have highlighted to management that the AGS lacks a clear conclusion as required by the Local Government Code. Management has agreed to update the final AGS to include a clear conclusion. This is reported to you in the disclosure misstatements section – see Appendix C. |



# 2. Financial Statements - other responsibilities under the Code

| Issue | Commentary |
|---|---|
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>The NAO recently issued guidance that requires us to provide an assurance statement by 31 March 2023. We are not able to meet this deadline and have communicated this to management and the NAO. The reason is because of planned work on Local Government opinion work up to 31 March 2023. We expect to be able to complete our work by 31 May 2023. |
| Certification of the closure of the audit | We intend to delay the certification of the closure of the 2021/22 audit of **Kent County Council** in the audit report, due to our Value for Money and WGA work not being complete. The Value for Money Work is planned to conclude by the end of March 2023 and the WGA work is planned to be completed by the end of May 2023. |

# 3. Value for Money arrangements

## Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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

### Improving economy, efficiency and effectiveness

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

### Financial Sustainability

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

### Governance

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

## Potential types of recommendations

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

### Statutory recommendation

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

### Key recommendation

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

### Improvement recommendation

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

# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Details of fees charged are detailed in Appendix D

### Transparency

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

# 4. Independence and ethics

### Audit and non-audit services

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

| Service | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| Audit related | | | |
| Agreed upon Procedures relating to the Teachers' Pensions end of year certificate | 10,000 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |
| Regional Growth Fund Assurance | 90,000 | Self-Interest<br><br>Self review (because GT provides audit services)<br><br>Management | This is a non-audit audit related service which is customarily provided by the auditor.<br><br>• separate engagement team led by a different Key Audit Partner<br>• reporting of the non-audit work to 'Those Charged with Governance' (TCWG) via this report<br>• before agreeing to carrying out this work, we consulted with our ethics team to ensure the all threats to our auditor independence were identified and that appropriate safeguards have been put in place. This work was approved by our ethics team.<br>• Before agreeing to carrying out this work, we sought approval from PSAA because of the perceived ethical threat. This work has subsequently been approved by PSAA. |
| Non-audit related | | | |
| CFO insights (Subscription ending September 2021 | 12,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

# Appendices

# A. Action plan – Audit of Financial Statements

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

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **Journals authorisation:**<br>Manual journals posted to the general ledger does not require authorisation or approval. There is no segregation between the preparer and poster of a journal. For more details on the risk see page x. | We recommend that management reassess the journal control environment such that they are satisfied that the residual risk meets the Authority's risk appetite.<br>**Management response**<br>• TBC |
| High | **Sevington capital payments:**<br>KCC are releasing payments to suppliers without obtaining signed certificates of completion. For more details on the risk see page x. | KCC should obtain and retain evidence of a signed certificate of completion prior to releasing payments to the contractor. This is to ensure key contractual risks are being effectively managed.<br>**Management response**<br>• TBC |

**Controls**

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

# A. Action plan – Audit of Financial Statements

| Assessment | Issue and risk | Recommendations |
|---|---|---|
| Medium | **School's bank accounts:**<br>As part of our testing the Council's cash and cash equivalents we do work to assure ourselves that the cash balances held by KCC maintained schools is materially accurate.<br>As part of our sample testing, we identified that for 6 out of the 7 schools selected, the bank reconciliation was performed at a date other the balance sheet date. In most cases they were performed 1 – 2 weeks prior to the 31 March 2022.<br>We enquired with management as to why the reconciliations were not done at the balance sheet date. It was explained that the bank reconciliations were done a couple of weeks before year end to accommodate half-term and the tight deadline to make returns to KCC to prepare their year end accounts. It is important to note that this is not a change in the process, school's have historically submitted bank reconciliations at dates prior to 31 March.<br>We have done work to assess and quantify the risk of material misstatement. This involved comparing the reported bank balance for school's to the bank balance at 31 March 2022 we obtained direct from the bank. Through this evaluation, we are satisfied that the risk is not significant and our extrapolation of the potential misstatement was less than trivial.<br>Nonetheless, we are of the view that school's bank reconciliations should be done at the balance sheet date and if this means extending slightly the deadlines for submission to KCC then so be it. We have communicated this to management and they have assured us that they are putting in place arrangements to change the process for 2022/23. | KCC should ensure all school's complete their annual bank reconciliation returns as at 31 March.<br>**Management response**<br>• TBC |

**Controls**

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

# B. Follow up of prior year recommendations

We identified the following issues in the audit of Kent County Council's 2020/21 financial statements, which resulted in 6 recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all 6 of our recommendations.

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **Insufficient evidence for raising revenue debtor:**<br>As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description *"20/21 contribution to joint investment with adult social care for vulnerable adults"*.<br>As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it.<br>**Prior year recommendation:**<br>Management should ensure debtor invoices are only raised when there is sufficient evidence to support the substance of the transaction. | **Management response:**<br>This was an isolated incident and the importance and requirement of having clear evidence before raising invoices has been reiterated at the Budget Management Team and at Team meetings.<br>**Auditor 2021/22 update:**<br>Our procedures this year have not identified any more instances of invoices being raised without appropriate documentation. |

**Assessment**

✓ Action completed

X Not yet addressed

# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | CHAPS payments:<br><br>In December 2020, your internal auditor issued a report on urgent CHAPS payments. The opinion provided by your internal auditor was 'limited' meaning that adequate controls were not in place.<br><br>This report raised concerns about the lack of due process, controls, oversight and governance around these payments. As a result of these issues, your internal auditor concluded that 'the absence of robust oversight and control heightens the risk of fraudulent activity, errors, or omissions being overlooked'.<br><br>As part of our risk assessment we therefore identified this as a risk factor and performed specific procedures to ensure that the risks identified did not crystalize into a material error within the financial statements.<br><br>Prior year recommendation:<br><br>Management should ensure they implement the control recommendations raised by your internal auditors in relation to CHAPS payments | Management response:<br><br>**All recommendations and management actions following the internal audit of CHAPS payments have been implemented. A subsequent issue around year end processing and posting dates has been found and officers are in the process of identifying the cause and will implement processes and a solution prior to next year-end.**<br><br>Auditor 2021/22 update:<br><br>Our procedures this year have not identified any issues pertaining to CHAPS payments. |
| ✓ | Unsigned Cantium Contract:<br><br>As part of our risk assessment procedures carried out in March 2021 we requested to obtain signed copies of contracts between the Council and suppliers the Council has outsourced key finance/accounting functions to.<br><br>Signed contracts were obtained for all outsourced providers apart from Cantium. Six months since our original request, we have still not received the signed contract with Cantium, a wholly owned subsidiary of the Council. There is some uncertainty as to whether the contract was signed at all. As a result, we consider this to be an internal control deficiency.<br><br>Prior year recommendation:<br><br>Management should ensure that all contracts are signed and maintained such that they can be accessed on request. | Auditor 2021/22 update:<br><br>We have obtained and reviewed the signed SLA contract with Cantium for 2021/22. |

**Assessment**

✓ Action completed

X Not yet addressed

# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | Related party interest of Councillors:<br>On probing the nature of one Councillor's relationship with a community interest company, it was made apparent that KCC had made the assumption that the Councillor's position as a director for the company was as part of their role at KCC when, in actual fact, it is a position that they hold outside of their Councillor duties.<br>We identified on Companies House that the councillor is a 'person with significant control'. In line with the CIPFA Code Section 3.9, as the councillor has significant influence over KCC then the community interest company is a related party. Also, given the sum of transactions (£708k) in 20/21 is significantly above our own specific materiality threshold for Related Parties, we deem this to be a necessary disclosure. This also would have been the case for prior years.<br>The accounts have been updated for this disclosure omission. Nonetheless, there remains a control deficiency as management's processes and controls failed to identify and detect a related party transaction.<br><br>Prior year recommendation:<br>Management should review their processes and controls to identify related parties to ensure they capture all interests of Councillors and challenges whether those interests are part of their role as a Councillor or not. | Auditor 2021/22 update:<br>We have reviewed the Member Interest Form to confirm that it does ask members whether the declared relationship is private or as a representative of KCC. As such, we are comfortable that management have implemented this recommendation appropriately and that this will mitigate the risk of unidentified related parties being present in 21/22. |

**Assessment**

✓ Action completed

X Not yet addressed

# B. Follow up of prior year recommendations

| Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|
| ✓ | **Gross Internal Area (GIA) data testing for PPE revaluations**<br>As part of our PPE revaluations testing, we reconcile the GIA/Floor areas per the valuers report back to your source estates system (K2). As part of this work we identified instances where your valuer had identified additional elements or blocks which did not appear in the K2 system. An example being where the valuer had identified and valued a football astro pitch which was not included in your estates register.<br>Given the valuer had visited and measured these sites, we are comfortable that their valuation exercise is complete and accurate but it does indicate that your estates system has not fully been updated.<br>Based on our work we are satisfied that there is no residual risk of material misstatement but we are highlighting the discrepancy should management deem it worthwhile to update the K2 system.<br>**Prior year recommendation:**<br>Management to consider whether the K2 system needs to be updated for components identified by your valuer which are not currently on the estates system. | **Auditor 2021/22 update:**<br>We have confirmed that the K2 system was updated for the issue identified in the prior year. We are therefore happy to close this issue but management needs to put in a semi-regular process to update this on an ongoing basis rather than as a one-off |
| ✓ | **Declaration of interest:**<br>As part of our work on the related party disclosure, we requested to obtain the signed declaration of interest forms pertaining to the Corporate Management Team (CMT).<br>Initially, management provided all but one of the declarations. It took over two months for management to provide us with the declaration form for the final member of the CMT. This form had to be signed retrospectively to cover the financial period in question.<br>NB: following receipt of the final signed declaration form, we have obtained the necessary assurances to complete our work on related party transactions.<br>**Prior year recommendation:**<br>Management should ensure all members of the CMT, and particularly those not permanently employed by the Council, have returned signed declaration forms ahead of the publication of the draft financial statements | **Auditor 2021/22 update:**<br>As part of our audit work this year on related party transactions, we have not identified any issues in relation to signed declaration forms. We also obtained evidence of enhanced processes by KCC to send reminders to officers to complete returns.<br>We are however aware that management are still exploring the possibility of having automated workflows to send reminders to individuals. This additional control has not yet been implemented but we are satisfied that sufficient improvement in arrangements has been made to close this control deficiency. |

**Assessment**

✓ Action completed

X Not yet addressed

# C. Audit Adjustments

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

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|---|
| **Infrastructure prior period adjustment:**<br><br>Upon review of management's prior period adjustment (PPA) in relation to infrastructure assets depreciation, we identified a further £24.9m of accumulated depreciation that had been incorrectly charged in previous years. The error arose because depreciation had been charged on Land assets within the infrastructure assets balance.<br><br>Despite the error not being material, as it relates to an issue where there is already a PPA in the accounts, management felt under IAS 8 and IAS 1 that it was appropriate to update their PPA to also include the impact of this. We are satisfied that the adjustment is in line with IAS 8 and IAS 1.<br><br>The adjustment increases the net book value of opening PPE. The corresponding entry goes into the unusable reserve 'Capital Adjustment Account'. For the avoidance of doubt, this adjustment has no impact on the General Fund. | Council and Group | Nil | Opening PPE<br><br>24,865<br><br>Opening Capital Adjustment Account Reserve<br><br>(24,865) | Nil |
| **Overall impact** | | **Nil** | **Nil** | **Nil** |

# C. Audit Adjustments – unadjusted misstatements

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **Understatement of energy accrual:**<br><br>As part of our testing of your expenditure accruals, we identified one large accrual for £18.9m which related to energy costs relating to March 2022 which had not yet been invoiced. The accrual was based on the costs incurred in the previous month (Feb) with a 15% reduction.<br>We tested the reasonableness of this estimate by comparing it to the actual costs of energy pertaining to March which was billed to KCC in April 2022. The total cost of March related invoices was £22m.<br><br>The estimate was therefore understated by £3.146m. As the difference is not material, management have decided to note adjust the financial statements. We have however reported it to you as an unadjusted misstatement as the difference exceeds the triviality threshold.<br><br>It is also worth noting that had management not applied the 15% reduction in their original estimate, there would be almost no difference in the estimate to the actual. Going forward, management should reconsider whether it is appropriate to apply the 15% reduction on this estimate. | Council and Group | Expenditure<br><br>3,146 | Creditors<br><br>(3,146) | 3,146 | Not material |

# C. Audit Adjustments – unadjusted misstatements

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **Depreciation:**<br>As explained on page x, our auditor's expert identified issues in the remaining life assumption used by the Authority in its estimate for depreciation. Our work identified that the remaining life assumption was based on inappropriate judgements about future activity rather than it being based on the current state of each property.<br><br>We quantified what the impact of this is and estimated that the potential overstatement in your depreciation estimate is £6 million. Having done this work we are therefore satisfied that this issue does not lead to a material misstatement in your financial statements.<br><br>As the amount exceeds our triviality threshold we are reporting it to you and we have included in this schedule here to ensure it doesn't in aggregate contribute to an overall material misstatement in your financial statements. | Council and the Group | Expenditure<br><br>6,000 | PPE<br><br>(6,000) | 6,000 | Not material - estimated |

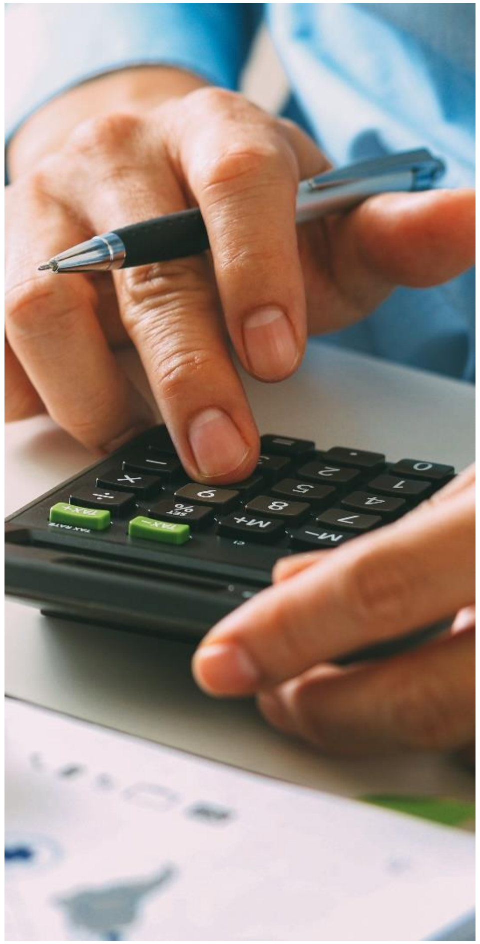
# C. Audit Adjustments – unadjusted misstatements

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **Overstatement of fair value of equity investment of Kent Holdco Ltd:**<br><br>Kent County Council has control and owns the shares of several subsidiary companies, the largest of which is Kent Holdco Ltd. This investment is held on the balance sheet of Kent County Council at fair value. The fair value estimate of Kent Holdco Ltd as at 31 March 2022 in the draft financial statements was £14.7m<br><br>Management use an expert to assist them in estimating the fair value of the equity investment. The estimate is based on several assumptions, one being the net cashflows of the entity in the current and future periods. As part of our work, we challenged the reasonableness of this assumption and identified that it included cashflows which did not relate to the subsidiary.<br><br>The estimate included cashflows pertaining to 'Core & Laser' which is not part of the Kent Holdco company boundary. This meant that the fair value estimate was overstated. Management have since updated the calculation to remove all cashflows pertaining to Core & Laser. This reduced the fair value estimate by £9.4m down to £5.3m<br><br>Note, whilst this increases expenditure in the CIES, the impact is reversed in the MIRS into the Capital Adjustment Account as the shareholding is capital funded. | Council | Expenditure<br><br>9,397 | Investments<br><br>(9,397) | 9,397 | Not material |

# C. Audit Adjustments – unadjusted misstatements

| Detail | Relates to | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 | Reason for not adjusting |
|---|---|---|---|---|---|
| **Extrapolation of errors in our operating expenses completeness testing:**<br><br>As part of our work to obtain assurance that expenditure and creditors are complete, we perform testing of payments made post period end (April and May). As part of our sample testing, we identified 4 errors totalling £344,691.81 caused by post year end payments relating to services provided in 21/22 but not being accrued for in year.<br><br>We evaluated the impact of these errors by extrapolating it over the population being tested. The combined extrapolated effect of these errors was £7,034,456. Whilst this provides us with assurance that your financial statements are free from material errors, it is an extrapolation above trivial and so we are required to report it to you as an unadjusted misstatement.<br><br>It is important to make clear that the £7m **does not** represent a factual misstatement in your financial statements. Rather, the £7m represents a forecast of the *possible* misstatement if the same level of error we identified in our sample was reflected across the entire population.<br><br>Given 3 of the 4 samples related to payments on capital, the forecasted misstatement is split across an understatement in capital additions and revenue expenditure. | Council and Group | **Expenditure**<br><br>95 | **Creditors**<br><br>(7,034)<br><br>PPE – additions<br><br>6,939 | 95 | Not material – extrapolated |
| **Total impact** | **Council and Group** | **18,638** | **(18,638)** | **18,638** | **Not material** |

# C. Audit Adjustments – prior year unadjusted misstatements



## Impact of prior year unadjusted misstatements

The table below provides a summary of unadjusted misstatements identified in the prior year audit which had not been made within the final set of 2020/21 financial statements.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Statement of Financial Position £' 000 | Impact on total net expenditure £'000 |
|---|---|---|---|
| **Total impact of unadjusted misstatements in the prior period** | (7,089) | 7,089 | (7,089) |
| In the prior year, there were 6 separate unadjusted misstatements. In total, the impact was that the balance sheet was understated by £7,089k with the deficit on the provision of services being overstated by the same amount. Management chose not to adjust the accounts because they were not material and some of them were extrapolations. | | | |
| Overall impact | (7,089) | 7,089 | (7,089) |

**Conclusion:** The impact of prior year unadjusted misstatements is not material. Even when added to unadjusted misstatements in the current period, there is no cumulative material misstatement.

# C. Audit Adjustments – misclassification and disclosure

## Misclassification and disclosure changes

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

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
| --- | --- | --- | --- |
| Note 38 – Fair value disclosures | Signage used for the carrying value and fair value of cash and cash equivalents under financial liabilities is disclosed with a negative sign, it should be disclosed with a positive.<br>Resultantly the total amount of carrying value and fair value would change by £32,512k | To update note 38 accordingly | ✓ |
| Note 15 Grant Income | The draft financial statements included a transposition error in the disclosure of 'Asylum' and 'Department for Transport' grants. The amount for 'Asylum' in the draft accounts was £81m when in fact it should have been £27m. 'Department for Transport' was disclosed as £27m when in fact it should have been £81m. | To update note 15 accordingly | ✓ |
| Note 39. Nature and Extent of Risks Arising from Financial Instruments | Our review identified that in the note relating to Credit ratings, The Council had not disclosed internal loans amounting to £17,002k. This was raised with the management and they have agreed to reinstate the disclosure to include internal loans as well. | To update note 39 accordingly | ✓ |
| Note 38 - Financial Instruments - categories of financial instruments | The short term creditors is overstated by £1,718k. The Council did not exclude deferred income of £1,984k. Deferred income does not meet the definition of financial instrument.<br>The council has also excluded an unidentified figure £266k giving a net overstatement of £1,718k.<br>After discussion and raising it with management, they have agreed to amend the note and the revised figure should read as £323,372k and the sub-total should be £325,979k.<br><br>**NB: This is disclosure only and has no net impact on the reported position of the Council.** | To update note 38 accordingly | ✓ |

# C. Audit Adjustments – misclassification and disclosure

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| Note 6 - Officers remuneration | Our review identified of the senior officers note identified several people that should have been disclosed but were not in the initial draft financial statements.<br>The issue was raised with management and the final version of the accounts has been updated to include those people missed. For clarity, there were four individuals missing from the original disclosure which has now been updated for. | To update the officers remuneration disclosure note | ✓ |
| Note 2 Accounting policy | In note 2 of the draft financial statements, the accounting policy for Fair Value Measurement of non-financial assets stated:<br>*The Council also measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date.*<br>As per the policy the surplus assets are valued at fair value at each reporting date. However, the council measures its surplus assets at fair value at least every four years in line with the revaluation policy for Property, Plant and Equipment.<br>Therefore we raised to management the need to clarify the policy so as not to mislead the reader in how the Council is accounting and valuing surplus assets. Management has agreed to update the narrative to make clear that Surplus assets are revalued once every four years. | To update the accounting policy accordingly | ✓ |
| Note 34 - Audit Cost | Audit costs in note 34 were incorrect in the draft financial statements. In particular, the disclosure was incomplete because it did not include:<br>• Fee of £90,000 for RGF grant work (see Appendix D)<br>• Fee for £10,000 for Teacher's Pensions work (see Appendix D) | To update note 34 accordingly | ✓ |
| **Annual Governance Statement - Conclusion** | The Annual Governance Statement (AGS) did not include a clear conclusion as required by the CIPFA Local Government Code. Your Monitoring officer has agreed to update the AGS with a clear conclusion. | To update the AGS | ✓ |

# C. Audit Adjustments – misclassification and disclosure

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| Balance sheet, Cash Flow statement, note 38, note 28 | Our testing of classification of investments in call accounts identified that these investments were classified as short term investments at amortised cost, however based on the definition of 'Cash and Cash equivalents' per IAS 7, these investments should have been classified as Cash and Cash equivalents in the statement of accounts. These investments amount to £5m for 21/22 and £35m for 20/21.<br>Management has agreed to correct presentation for 21/22, however since £35m is below materiality PY figures are not restated as IAS 8 only requires management to correct material prior year errors. | To update the balance sheet accordingly | ✓ |
| Note 17 - Property, Plant & Equipment | In the PPE disclosure in Note 17, the presentation of transfers to/from Assets Under Construction (AUC) was misleading. The disclosure only showed one side of the movement rather than correctly showing where the transfer has gone from and to.<br>Management has agreed to update the disclosure to better present information to the reader of the accounts in line with IAS 1. Please note, this has no net impact on PPE, it is just a representation of note 17. | To update the PPE note accordingly | ✓ |
| PPE – disposal and donations | As part of our PPE work, we identified that the council has shown £20.06m as donation for Land and Buildings under PPE Note 17. This is in relation to Simon Langton Girls Grammar School which was part of the Priority Schools Building Programme 2. It is a DFE managed project so no capital expenditure has gone through KCC's books.<br>Several blocks have been demolished at the school and replaced with the new one however, as stated before, the capital expenditure is not spent by the council. The council owned the school at the NBV of £13.911m on 31.3.21. We reviewed the prior year valuation along with current year valuation and noticed that there are 4 blocks which were demolished completely and 2 blocks added during the year.<br>Therefore, in our view, the 4 blocks which were demolished completely with a total value of £5.5m should have been derecognized and shown as loss on disposal of assets. The new blocks added with a value of nearly £25.5m should have been shown as donations. The Council has shown the net increase in value as donation rather than showing both transactions gross.<br>At the net level, there is no misstatement on the balance sheet or CIES, however it does mean donations is understated by £5.5m and loss on disposal is understated by £5.5m.<br>**Management have decided not to adjust the accounts for this issue.** | To update note 34 accordingly<br>**This disclosure has not been amended. This is because in the view of management it is not material to the financial statements.**<br>**We are satisfied with management's judgement and therefore does not impact on us issuing a true and fair opinion.** | X |

# C. Audit Adjustments – misclassification and disclosure

| Disclosure change or issue | Detail | Auditor recommendations | Adjusted? |
|---|---|---|---|
| Investments – balance sheet | A classification adjustment between long-term and short-term investments was proposed. £4,699k worth of investments in GET no use Empty loans had been mistakenly classified as long-term despite having maturity dates in 21/22. As such, KCC have agreed to reclassify these to short-term. As a result of correction note 38 will also need to be adjusted following correction in the balance sheet.<br><br>Long-term:<br>Draft: 321,825k<br>Revised: 317,126k<br><br>Short-term:<br>Draft: 38,835k<br>Revised: 43,534k | To update the balance sheet accordingly | ✓ |
| Group accounts CIES | As part of our testing of intercompany eliminations in your group consolidation we identified classification misstatements.<br><br>1. Classification of Invicta Law spend/income eliminated from Adult Social Care & Health Gross Expenditure when is should have been eliminated against Children, Young People & Education Gross Expenditure. (£6,181k DR & CR)<br>2. Classification of TEP spend with schools eliminated against Strategic & Corporate Services Gross Expenditure when it should have been eliminated against Children, Young People and Education Gross Expenditure. (£11,242k DR & CR)<br>3. TEP Income eliminated against Group - Holdco Ltd Gross Income and should have been eliminated against Children, Young People & Education Gross Income (£15,265k DR & CR)<br><br>Management have updated the final accounts for the above misclassifications. | To update the Group CIES accordingly | ✓ |

# D. Fees

We confirm below our final fees charged for the audit and provision of audit related and non-audit related services.

| Audit fees | Proposed fee | Indicative Final fee |
| --- | --- | --- |
| Council Audit | £210,675 | TBC |
| **Total audit fees (excluding VAT)** | **£210,675** | **TBC** |

| Non-audit fees for other services | Proposed fee |
| --- | --- |
| **Audit Related Services** | |
| Teachers' pensions | 10,000 |
| Regional Growth Fund Assurance* | 90,000 |
| **Non-audit related** | |
| CFO insights | 12,500 |
| **Total non-audit fees (excluding VAT)** | **£126,500** |

** In our Audit Plan, we communicated the Regional Growth Fund Assurance work. At that stage we indicated a fee of £100,000 for the work. The actual fee charged for this work is £90,000 and this is what we are now reporting and what is included in the financial statements.*

# F. Audit letter in respect of delayed VFM work

Rosalind Binks

Chairman of the Governance and Audit Committee

County Hall

Sessions House

Maidstone, Kent

ME14 1XQ

28 February 2023

Dear Rosalind

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our 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.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 March 2023 which is within the 3 month window permitted by the NAO.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Dossett

Partner

grantthornton.co.uk