Grant Thornton

The Audit Findings for Kent County Council

Year ended 31 March 2023

23 November 2023

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the 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 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. Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on 23 November 2023.

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 23 November 2023

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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 2023 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 July to October. Our findings are summarised on pages 8 to 34. The Council's single entity draft financial statements alongside a full suite of working papers were submitted for audit in early July in line with the agreed timetable. The group financial statements and supporting working papers were submitted to us on 04 August. As in previous years, the quality of the financial statements and supporting working papers continues to be high evidenced by the small number of presentation and disclosure issues identified during our audit. Your corporate finance team engages well with the audit process and responds to our audit queries. There were however delays to the audit process caused by several factors. These factors are set out in more detail on page 8. There are no adjusted misstatements to the financial statements which impact the General Fund. We have however identified eight misstatements from our testing which management have decided not to adjust for. Individually and in aggregate, these misstatements are not material to the financial statements. The net impact of these misstatements are £6,690k and details of these can be found in Appendix D. Three issues arose during the audit which we feel is important to give prominence to. 1. <u>School's cash reconciliation issue:</u> In the draft financial statements, cash and cash equivalents (£136 million) includes £82 million of cash held by KCC maintained schools. As in previous years, our detailed testing of this balance uncovered that most of the schools are performing their yearend bank reconciliations before the 31 March 2023. In some scenarios, the bank reconciliation is being performed more than 2 weeks before the 31 March 2023. We have performed testing to determine the potential impact this has on the financial statements. Based on our work, whilst we have obtained reasonable assurance that the financial statements are not materially misstated, we have projected that the potential misstatement is £16.8m. We have reported this uncertainty to you as an unadjusted misstatement – see Appendix D. This was a control recommendation we raised in the prior year and we have confirmed from our testing that it has not been implemented. Confirmation of this is set out in Appendix C. We have therefore escalated this as a **<u>high priority</u>** recommendation for management to implement for next year. More details on this issue are set out on page 20. 2. <u>Journals posted by users different than the preparer</u>: As part of our work to understand the design and implementation effectiveness of controls around journals, we discovered that your ledger system allows people to post journals that they did not prepare themselves. This presented several risks particularly considering the fact we test journals to provide comfort over the presumed risk of management override of controls. Having identified this issue, we performed additional testing to identify all journals posted by somebody other than the preparer and to perform testing on instances where it has happened to assure ourselves that those transactions have not contributed to a misstatement in the financial statements either deliberately or inadvertently. Our additional testing has not identified any evidence of management override of controls, error or fraud. As a result of this issue we have however raised a control finding – see Appendix B. More details of this issue is set out on page 11. *Continued overleaf…*

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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.

3. Prior period adjustment on fully depreciated assets : During the 2021-22 audit it was noted that fully depreciated Vehicles, Plant and Equipment (VPE) no longer in use had not been written out from gross book value (GBV) and accumulated depreciation and management agreed that this would be actioned in 2022-23 as the figures involved at that stage were not material. However, during the 2022-23 audit it became apparent that fully depreciated Schools IT had not been included within the analysis in 2021-22 and when taken into account, the impact on GBV and accumulated depreciation is material and therefore a Prior Period Adjustment is required. This misstatement only impacts the disclosure note of Property, Plant and Equipment (PPE) and has no impact on the balance sheet nor general fund. The prior period misstatement in the 01 April 2021 opening balance was £53.5 million. This is reported to you as an adjusted disclosure misstatement in Appendix C.

We have raised 3 control recommendations for management as a result of our audit work and these are set out in Appendix B. We have also followed up on prior year control recommendations. Only 1/3 of our prior year recommendations have been implemented. Details of prior year control recommendations are detailed in Appendix C.

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;

Outstanding requests:

- Response to queries in respect of the cashflow statement. Management have revised the figures in the cashflow statement after they were challenged as part of the audit process. We have raised queries to ensure we obtain sufficient assurance that the revised figures are materially accurate.
- Receipt of investment confirmations from 3 separate financial institutions.
- The disclosures in the financial statements relating to pension costs show a number of significant movements compared with the previous year. We are currently seeking explanations for these movements from the Council's actuary, including understanding the impact of the latest triennial review of the Kent Pension Fund as at 31 March 2022.
- We have requested a meeting with a KCC officer to obtain evidence that the listing of journals posted by another user is complete. This will be achieved by watching the report being run directly on the system and ensuring the parameters of the report are appropriate.
- Evidence to support 7 creditors selected in our sampling.
- As part of our creditors testing, there is 1 sample for £4 million which we have been told is the dividend payable from commercial services to KCC. At prima facie this appears to be an internal recharge transaction which should not be reported on the balance sheet. We have raised a query with management to explain the presence of this creditor in the single entity KCC financial statements.
- Response to a query we have raised following our review and challenge of management's proposed prior period restatement to the 'grants credited to services' note.

Continued overleaf . . .

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1. Headlines - continued

Financial Statements

Audit procedures in progress:

- Completion of our enhanced audit procedures around NHS transactions posted during the period.
- Review of evidence provided in relation to 1 creditor sample relating to the £40m energy accrual.
- Completion of our work on PPE revaluations and group accounts.
- Conclusion of a mandated internal consultation regarding our evaluation of a cybersecurity breach that occurred in February 2023. More information on the cybersecurity breach can be found on page 15.
- Conclusion of mandated internal consultations regarding the 3 prior period adjustments management have put through in your final accounts. The three prior period errors are (1) PPE VPE removal of nil net book value items not in use (2) senior officer's remuneration disclosure of officers earning over £50k (3) grants credited to services disclosure note.
- We have recently been provided with your draft AGS. This is currently being reviewed for compliance and consistency. We understand also that the AGS is still subject to internal governance sign off and so our opinion can only be issued once this process has been completed.
- We have recently been provided with a draft report of the KCC commissioned investigation into the £4m NHS transaction that we flagged in our audit of 2020-21 and 2021-22. We are considering the impact of the findings on our risk assessment but we must also wait until the report is final before making any conclusions.
- Final internal senior management and quality reviews.
- Receipt of management representation letter.
- 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.

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1. Headlines - continued

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 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 our VFM work and so are not able to issue our 2022-23 Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix G to this report. We expect to present our auditor's annual report to the Governance ad Audit Committee on 25 January 2024 and issue it as final shortly after that. 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. As we reported to you in our Audit Plan, we have identified 7 risks of significant weakness as explained below. Risks linked to key recommendations raised in the prior year: 1. the risk that the Council's arrangements to control budgetary spend and deliver savings are not effective leading to the Council's financial positioning worsening and increasing the likelihood of your S151 issuing a S114 notice; 2. the risk to the Council's financial sustainability as a result of ineffective arrangements to manage SEND demand and meet the requirements of the Council's safety valve agreement with Central Government. Failure to meet the requirements could result in a loss of funding; 3. the risk of non-compliance with the Council's decision-making framework as well as the need to strengthen existing arrangements; 4. the risk that the Council's arrangements fail to improve performance of SEND services and does not meet Ofsted standards; 5. the risk that the Council's procurement arrangements are not effective or complied with; New risks for 2022-23: 6. the risk that behaviours and the culture within the Council do not support effective governance and decision making; and 7. the risk that the arrangements in place to provide statutory services for Asylum Seekers including Unaccompanied Asylum Seeker Children (UASC) are not effective. Our work on VfM has started and we are currently on track to meet the target date of the 25 January 2024 to report our findings to you.
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 January 2024. As a firm, we are prioritising our resources to complete financial statement opinion work to reduce the local audit backlog ahead of the 'backstop' we expect to be implemented in March 2024. As a result, any WGA work will be completed after this date. More information regarding the audit backlog is set out overleaf.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit. We did encounter several challenges during the audit which led to delays and in some cases a fee variation and these are set out on page 8.

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1. Headlines

National context – audit backlog

National context:

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

Local context:

Locally, whilst there have been delays to the completion of the audit in recent years, the delay has not been significant. Compared to the national picture, the completion of the audit has been on par or ahead. This has only been possible because your finance team produce high quality financial statements and engaged well in the audit process. A good example being the infrastructure assets issue in the prior year which derailed the audit process for many Councils across the Country. Your finance team engaged early with us and the sector on the issue – ultimately enabling the audit process to conclude without significant delay. We would like to thank everybody at the Council for their contribution to the audit process.

National context – level of borrowing

National context:

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

Local context:

As at 31 March 2023, the Council held £812 million of borrowings. The majority of this is held with Public Work Loans and Barclays Bank PLC on fixed interest. The borrowings taken out by the Council has been used to finance capital acquisition of operational assets. Unlike other Councils, we have not seen any evidence of the Council borrowing excessive amounts to invest in exotic instruments, nor have we seen any evidence of the Council taking excessive risks. Current borrowing is in line with the Council's prudential indicators and we have no concerns that those indicators are inappropriate.

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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 23 November 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 pages 4 and 5 being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 23 November 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 progress report that we presented to the Governance and Audit Committee on the 14 September, during the audit your finance team faced audit challenges again this year that led to delays. There were also some resource challenges on our side. Challenges included:

- the timely response to some of our queries, particularly where it required information outside of finance
- annual leave over the summer holidays that reduced the resources available in your finance team to respond to queries
- the reconciliation issue in your school's cash balance
- material prior period error in your PPE balance. Material prior period errors involves additional work for both management and the audit team. We are required to consult with our internal technical team on all PPA's for major local audits. We have proposed a fee variation to cover the costs of performing this additional work - see Appendix E.
- the control issue we identified in your general ledger where journals were being posted by a user other than the person who prepared the journal. This led to additional lines of enquiries and testing to gain the required assurances. We have proposed a fee variation to cover the costs of performing this additional work - see Appendix E.
- an audit team member we planned to have on the audit becoming unavailable.

The challenges above led to delays which meant that the audit completion date was pushed to the right by a month.

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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 August 2023, we set materiality at 1.5% of the prior year gross revenue expenditure plus interest payable in the prior year audited accounts (£2,879m).

In the 2022/23 draft accounts, gross revenue expenditure plus interest payable decreased to £2,830m. As the decrease was less than 2%, we determined that the existing materiality set at the planning stage remained appropriate. Materiality levels therefore remain 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 £43,500,000.

Council [redacted]

	Planning (£)	Final (£)	Qualitative factors considered
Materiality for the financial statements	43,000,000	43,000,000	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	27,950,000	27,950,000	Performance Materiality is based on a percentage of the overall materiality. The threshold has been reduced from 75% in the prior year to 65%. The reduction is based on our auditor judgement in considering the requirements of ISA 320. The reduction is broadly in response to the fact we identified several misstatements in the prior year.
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	43,500,000	43,500,000	Same as above
Performance materiality	28,275,000	28,275,000	Same as above
Trivial matters	2,100,000	2,100,000	Same as above
Materiality for senior officers' remuneration and related parties	100,000	100,000	Same as above

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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 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. 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: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Control finding #1:** As we reported in the previous year, 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. 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 deficiency has not prevented us from obtaining the assurances we need over the ISA 240 risk. 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. As this was a control issue in the prior year, our follow up of the recommendation is set out in Appendix C. *Continued overleaf…*

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Management override of controls - continued	Council and group	**Control finding #2:** As part of our work to understand the design and implementation effectiveness of controls around journals, we discovered that your ledger system allows people to post journals that they did not prepare themselves. For example, person 'X' accesses the ledger system and prepares the debits and credits for a journal but does not click post. That journal is then held in draft within the system. Person 'Y' then accesses the draft journal and posts it to the ledger. This functionality in the system meant that it was possible for somebody who shouldn't post journals to the ledger i.e. senior management, to create a journal and have somebody post it on the system. Equally, the ledger itself does not retain an audit trail as to why person 'Y' has posted the journal and whether person 'X' is satisfied with it. This is a functionality of the ledger system that we were previously unaware. Having identified the issue, we discussed it with management so we could understand whether this functionality is being used, and if so, why. We discussed it with the corporate finance team as well as IT and discovered that that it should only be used in rare circumstances i.e. to cover people whilst on annual leave. Having become aware of the functionality within the system we then designed an additional procedures to review and test journals posted by users other than who prepared them. In total, we identified 22 different people had posted 104 journals that they did not create during the period. During one financial year, the number of transactions posted to the ledger is more than 100,000. Contextually therefore, 104 journals is a small number and supported management's initial assertion that journals posted by a user that did not create the transaction is rare. We have risk assessed this population and we have performed testing on certain transactions. Our testing has not identified any instances of management override of controls, error or fraud. In the majority of cases, management was able to provide evidence from the time that demonstrates that the user who prepared the journal authorised another person to post their journal. Evidence included email confirmations but also Microsoft Teams messages. In 2 scenarios, the journal was posted by another user because the initial preparer was on annual leave. In 1 instance, both the preparer and the posted had now left the organisation and so no evidence could be supplied demonstrating authorisation. In relation to the issue, we have raised two control recommendation to management which are set out in Appendix B. The control recommendations are: 1. To ensure there are clear policies and procedures in relation to the use of this functionality and that people who access the ledger system are aware of them. 2. Where this functionality has been used, management should ensure there are clear policies and procedures to store the rationale as to why it has been used, and this should be reviewed and approved by a separate person. **Conclusion:** Subject to the satisfactory completion of the outstanding matters detailed on pages 4 and 5, our work has not identified any material issues in relation to this risk.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
The revenue cycle includes fraudulent transactions 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. (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: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Kent County Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Kent County Council or the Group 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.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings (Rolling revaluation) 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. 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. **Pinpointing the significant risk:** We pinpointed the significant risk around the following: • assets which were material; • assets where the valuation movement differed significantly to what we would expect based on indices; • assets where we were aware of a significant change in any of the key assumptions from the prior period; and • any other factors which in our auditor judgement increased the risk of material misstatement in a particular asset	Council and Group	We have • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • 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. • 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. • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • 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. • 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. • Assessed the value and reasonableness of key assumptions in relation to a sample of investment properties **Conclusion:** Subject to the completion of the outstanding work set out on pages 4 and 5, our work has not identified any material issues in relation to this risk.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the pension fund net liability (£62 million) The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£62 million in the Council's balance sheet at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions. 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 on Local Authority 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. 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. The actuarial assumptions used are the responsibility of the entity 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. 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 Authority's pension fund net liability as a significant risk. Triennial revaluation: The LGPS is subject to a full membership revaluation every three years. The 2022-23 year is the first year of a new three year cycle. We therefore must obtain assurances that the non-financial information being sent to the actuary around membership data is complete and accurate.	Council and Group	We have: • 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. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • 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. • 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. • We have also conducted work to satisfy ourselves that the movement within the IAS 19 report described as 'experience' is reasonable and appropriate • Obtained assurance that information sent to the actuary in respect of the triennial revaluation is complete and accurate Key observation: The biggest movement on the balance sheet between 31 March 2022 and 31 March 2023 is the £1.5 billion decrease in the net liability arising from the LGPS defined benefit obligation. Whilst this is a significant movement, it is consistent with all other LGPS schemes nationally. Whilst the actuarial estimate is sensitive to several different assumption, the single biggest cause for the improvement in the net liability is an increase in the discount rate, from 2.6% in 2022 to 4.8%. We have gained assurance that a discount rate of 4.8% is reasonable because our auditor's expert (PwC) has deemed it within an acceptable range based on their own work. Therefore, whilst we have not identified any misstatement in the net liability figure, we did feel it important to highlight the significant movement year-on-year and explain what causes the movement, the fact it is consistent with national trend and the assurance we have obtained that the movement is based on reasonable assumptions. More information regarding our testing of all key assumptions can be found on page 22. Conclusion: Subject to the completion of the outstanding work set out on pages 4 and 5, our work has not identified any material issues in relation to this risk.

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2. Financial Statements - Observations in respect of other risks

This section provides commentary on 'other risks'. Other risks are risks to the financial statements which we have assessed as not being significant under ISAs.

'other risk' identified	Risk relates to	Commentary
Cyber Security 1 in 3 UK entities suffer from a cyber breach every month, so it's more a case of 'when' an attack happens, not 'if'. High profile cyber-attacks undermine trust in an organisation and shatter hard won reputations and consumer trust. Over 80% of the cyber-attacks we read about could have been prevented through good simple cyber hygiene. Understanding and managing cyber risk is fundamental to any business's growth journey.	Council and Group	We have: • Evaluated the risks relating to cybersecurity that may impact financial reporting by understanding and evaluating cybersecurity controls • Obtained responses to a cybersecurity questionnaire from your IT officers as well as Cantium • Investigated and evaluated the impact of cybersecurity breaches Findings: In February 2023, there was a successful phishing cybersecurity breach. This occurred when an officer clicked on a link from an email to reset their password. The attacker gained entry to the Children's department however there was no access to financial information that could impact the financial statements. We have evaluated the impact the cybersecurity breach, the existing controls and response by management. We have concluded that there is no risk of material misstatement to the financial statements. In line with the Grant Thornton's risk management policies, the audit team's evaluation around cybersecurity breaches requires consultation and approval form our internal IT experts. This consultation is currently on going at the time of writing this report. Conclusion: Subject to the completion of the outstanding work set out on pages 4 and 5, our work has not identified any material issues in relation to this risk.

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2. Financial Statements - Observations in respect of other risks – *continued*

'other risk' identified	Risk relates to	Commentary
Testing on expenditure 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. 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 12 relating to revenue recognition apply. 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 pages 10 and 11. Whilst we have concluded that there is no significant risk, we have assessed that there is some risk of material misstatement that requires an appropriate audit response.	Council and Group	We have: • Performed testing over post year end transactions to assess completeness of expenditure recognition. • Tested a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year. Findings: 1. **Recharges:** Your ledger contains internal recharges between different department. These internal recharges increase expenditure and increase income. They are important from a management accounting perspective but they are not genuine transactions to be reported in your financial statements. You have a process to identify and clear these transactions as part of your financial reporting process. This year however, this process was incomplete and £3.5m of expenditure transactions were not netted off against income. This means that expenditure is overstated by £3.5m and revenue is overstated by £3.5m. We have reported this to you as an unadjusted misstatement in Appendix D. 2. **Completeness of expenditure (invoices):** As part of our completeness testing, we obtained a listing of all the invoices received in April, May and June 2023. We then tested a sample of these transaction to ensure that where the expenditure relates to 2022/23, it has been correctly accrued for. There was 1 invoice for £1,150 where it related to 2022/23 but was not accrued for. This is below the Council's de-minimus policy (£5,000) for accruing expenditure and so it is consistent with the Council's accounting policy not to accrue for this transaction. Nonetheless, we must assess the impact this is having on your financial statements and so we have extrapolated the error over the population tested. The extrapolation came to £2,994k. Based on testing undertaken, this confirms that your accounts are not materially misstated but because the extrapolation exceeds triviality, we are required to report this to you as an unadjusted misstatement. See Appendix D. *Continued overleaf . . .*

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2. Financial Statements - Observations in respect of other risks – *continued*

'other risk' identified	Risk relates to	Commentary
Testing on expenditure - *continued*	Council and Group	3. **Operating expenses sample testing:** We identified that two of our samples had misstated amounts, as they were recorded to the incorrect financial period. £993.71 for supported living relates to 21-22 FY and was incorrectly recorded to 22-23 FY. £230.79 for designated bed scheme scheduled payment related to 21-22 FY and was incorrectly recorded to 22-23 FY. Individually, these were below the Council's de-minimus policy and so were not accrued for. Nonetheless, we must assess the impact this is having on your financial statements and so we have extrapolated the error over the population tested. The extrapolation came to £2,334k. This confirms that your accounts are not materially misstated but because it exceeds triviality, we are required to report this to you as an unadjusted misstatement. See Appendix D. 4. **Completeness of expenditure (bank payments):** As part of our completeness testing, we obtained a listing of all bank payments made in April, May and June 2023. We then tested a sample of these transaction to ensure that where the payment related to expenditure taking place in 2022/23, it has been correctly accrued for in the financial statements. We identified four errors in our sample testing . Three of our samples had misstated amounts, as they were recorded to the incorrect financial period. Individually, these were all below the Council's de-minimus and therefore were not accrued for on that basis. We identified that one of our samples was not accrued for and was over the client de-minimus policy. We extrapolated the error arriving at projected misstatement of £1,353k. This confirms that your accounts are not materially misstated. As the amount does not exceed triviality, it has not been included in the schedule of unadjusted misstatements. Conclusion: Our work has not identified any material issues in relation to this risk.

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2. Financial Statements - Observations in respect of other risks – *continued*

'other risk' identified	Risk relates to	Commentary
NHS transactions As communicated in our 2022-23 Audit Plan, we explained that we would design specific tests around NHS transactions and report the findings to you in our Audit Findings Report. Background: In our audit of 2020-21 we identified an issue pertaining to a £4m transaction with an NHS CCG (now ICB). This was followed up in 2021-22 and reported on in our Audit Findings Report. During 2022-23 we were made aware of a potential disagreement regarding the respective funding obligations of the Council and the ICB relating to hospital discharge services. Whilst the amounts involved mean we have not identified this as a significant risk to the audit, given the sensitivities, we have nonetheless tailored in specific tests during our 2022-23 audits to determine that transactions with the NHS are complete, accurate and are regular in nature.	Council and Group	• as part of our journals testing, we reviewed all transactions which included keywords in relation to NHS. We then tested any transaction from within this listing that met certain risk criteria i.e. size; • as part of our completeness testing of income, we reviewed and tested all invoices raised to the NHS over a certain threshold; • as part of our completeness testing of expenditure, we reviewed and tested all invoices received by NHS organisations over a certain threshold; and • reviewed the findings of the report from the investigation the Council commissioned into the NHS invoice issue we raised in 2020-21 and 2021-22. Findings: No issues identified from our testing to date. Our work on journals is however still on going. We have recently received the draft report into the KCC commissioned investigation into the £4m NHS invoice issue. Once we have received the final version, we will assess the impact, if any, this has on our audit. Conclusion: Subject to the completion of the outstanding work set out on pages 4 and 5, our work has not identified any material issues in relation to this risk.

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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 10 to 14.	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.	This work is currently in progress
• Kent Holdco Ltd • EDESCO Ltd • Kent County Trading Ltd • Cantium Business Solutions Ltd • GEN2 Property Ltd • Invicta Law Ltd • Kent Top Temps Ltd • Commercial Services Trading Ltd and its subsidiary (CES Holdings Ltd)	No	None	Analytical reviews performed by Grant Thornton UK LLP.	As at the date of writing this work is still in progress however we have not identified any issues to date.
Group consolidation	N/A	None	• To document our understanding of the consolidation process • To review and test (where appropriate) intercompany eliminations • To ensure intercompany eliminations are complete • Perform an analytical review at the group level as part of our risk assessment process	As at the date of writing this work is still in progress however we have not identified any issues to date.

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2. Financial Statements – Key issues discussed with management

Cash reconciliations at school's

Issue reported in the prior year:

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. 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.

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.

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.

2022-23 update:

This year, we selected a sample of 9 schools and in all circumstances, the bank reconciliation was performed before the 31 March 2023. The control recommendation we raised in the prior year had not been implemented.

In response, we carried out the same work this year to assess and quantify the risk of material misstatement by comparing the cashbook value to bank confirmations as at 31 March 2023. Whilst in the prior year this evaluation projected a trivial issues, this year the projected misstatement is £16.8m. Whilst £16.8m is not material, it is still a large figure which we have reported to you as an unadjusted misstatement in **Appendix D.**

Wider considerations and impact:

- The fact that bank reconciliations are not performed as at 31 March 2023 means we are having to perform additional audit procedures we would not expect to carry out on cash.
- Bank reconciliations are a key control that safeguards the Council against fraud and misstatement. We have no concerns in the accuracy of the bank reconciliations that are being performed, our only issue is that they are being performed as at the wrong date.
- Management have not been able to explain to us if, and how, transactions within schools after their bank reconciliation date are recorded in KCC's financial statements.

Conclusion:

We have raised a high priority control recommendation to ensure all school's bank reconciliations are done as at 31 March 2023. We have also communicated in Appendix D an unadjusted misstatement reflecting the level of uncertainty in the financial statements.

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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) – £2,715 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. 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. 83% of total assets were revalued during 2022/23. The valuation of properties valued by the valuer has resulted in a net increase of £215m. £218m of the gain has been taken to the revaluation reserve with the remaining -£3m going through the Comprehensive Income and Expenditure Statement (CIES). Management has considered the year end value of properties not re-valued in year (£447m). 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 2023, 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: • reviewed the land and buildings valuation estimate in line with ISA540 requirements and have no issues to raise; • reconciled the fixed asset register to the ledger and the financial statements • assessed management's valuation expert and found them to be competent, capable and independent; and • verified the valuer's outcome against our independent auditor's expert valuation trend report. • 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. • assessed the reasonableness of alternative site judgements and assumptions • assessed the accuracy and completeness of underlying information used to determine the estimate; and • assessed the reasonableness of key underlying assumptions for DRC buildings i.e. build costs, floor areas and obsolesce. This assurance was provided to us by our auditor's expert. • assessed the reasonableness of key underlying assumptions for EUV assets and assets held at market value i.e. investment properties. This included assessing the reasonableness of yields and rental figures. This assurance was provided to us by our auditor's expert. **Conclusion:** Subject to the completion of the outstanding work set out on pages 4 and 5, our work has not identified any material issues in relation to this accounting estimate.	Green

Assessment

- Red — 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
- Green — We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £62m	The Council's net pension liability at 31 March 2022 is £62m (PY £1,559m) 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. The latest full actuarial valuation was completed in 2022. 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 £1,497m net actuarial loss during 2022/23.	• We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 22/23 roll-forward calculation carried out by the actuary. • We have used PwC as our auditor expert to assess your the actuary's assumptions – see table below for our comparison of actuarial assumptions:	Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8 %	4.8 – 4.85%	● Green
Pension increase rate	2.9 %	2.65 – 2.95%	● Grey
Salary growth	3.9 %	3.65 – 3.95%	● Grey
Life expectancy – Males currently aged 45 / 65	Pensioners: 21.1 Future pensioners: 22.3	Pensioners: 19.5 – 22.1 Future pensioners: 20.9 – 23.4	● Green
Life expectancy – Females currently aged 45 / 65	Pensioners: 23.5 Future pensioners: 25.0	Pensioners: 22.9 – 24.5 Future pensioners: 24.3 – 25.9	● Green

- Continued overleaf

Assessment

- ● Red — 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
- ● Green — We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £62m- continued		• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2022/23 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets. Conclusion Subject to the completion of the outstanding work set out on pages 4 and 5, our work has not identified any material issues in relation to this accounting estimate.	Green

Assessment

- Red 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
- Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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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). 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. This year the MRP charge was £58m (2021/22 £57m).	Findings: We have carried out the following work: • Confirmed that the Council's policy on MRP complies with statutory guidance. • Assessed that there are no changes to the Council's MRP policy in comparison to 2021/22 • Assessed and benchmarked the percentage of the Council's MRP charge against the opening capital financing requirement (4.51%). As this is above 2%, it falls within our 'Green' range – no concerns identified. • 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. Conclusion: 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.	Green

Assessment

- Red — 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
- Green — We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation (£102m)	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. 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. The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset. 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:** 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 decrepitated at the point in which they are brought into use. We have performed work that confirms this departure does not lead to a material misstatement in the accounts. We have estimated the impact as £2.87m which is significantly below our materiality level. **Remaining economic life assumption:** As we reported in the prior year, 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. Each year your valuer has assigned the same REL for each DRC asset at 46 years. According to your valuer, 46 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. 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. 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. Using the obsolescence data, we arrived at a REL of 33 years. If this REL was applied to your asset base, the difference on your depreciation estimate would be £11.984m. 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 D for details.	Blue – materially correct but includes optimistic assumption

Assessment

- Red — 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
- Green — We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
PFI liability (carrying value - £194m) (fair value - £241m)	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. 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 (£241m). 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.	Green

Assessment

- Red 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
- Green We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Assessment
Adult social care debt	The Council provides social care support to adults as part of their statutory duties. Some of these services are charged to the individual. As at 31 March 2023, the total debt outstanding from KCC residents was £44.7m (PY 36.7m). In line with the relevant accounting standards, management must estimate a provision for doubtful debt on an expected loss basis. Management's estimate for the provision in the draft financial statements is £14m (PY 11m). **Secured debt vs non-secured debt** In forming the estimate, management differentiate between debt which is secured and debt which is not secured. Secured debt is where there is a legal right for the Council to recover the money against a persons estate, typically a property. Where there is secured debt, management do not provide against the debt no matter how old it is. £7.3m out of the £44.7m of adult social care debt is secured. **2022-23 weighted average provision** Management's method to estimate the provision for doubtful debt is to sub-divide the population into its age. The older the debt, the higher the percentage management apply to estimate the provision. The weighted average provision by age is shown below.	**Blue** – materially correct but includes optimistic assumption

Age profile of the debt	Weighted average provision	GT Assessment
Current	1%	● - (Blue) – We consider this estimate optimistic
Up to 6 months	5%	● - (Blue) – We consider this estimate optimistic
6 months – 1 year	43%	● - (Blue) – We consider this estimate optimistic
1 year – 3 years	47%	● - (Blue) – We consider this estimate optimistic
3 years +	60%	● - (Blue) – We consider this estimate optimistic

Assessment

- ● Red — 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
- ● Green — We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Assessment
Adult social care debt	Audit Comments 1. We consider the judgement not to provide against secured debt as reasonable. 2. Our overall conclusion is that the estimate is optimistic but unlikely to be materially misstated. As shown in the table on the previous page, the percentages applied to the different age brackets of debt are lower than we would expect. In light of the cost of living crisis and that these debts are often held with people who are already struggling financially, we are of the view that the estimate is understated. We have performed a sensitivity analysis using alternative percentage figures to quantify the level of optimism. This analysis suggests that the estimate is understated by £10.9 million. This is not a factual misstatement but rather a judgemental quantification of the impact of optimistic assumptions. In line with the auditing standards, we are reporting this to you as an unadjusted misstatement in Appendix D. 3. We have raised a control recommendation for management to obtain updated information regarding default rates to inform the percentages they apply to aged debt. Control recommendations are set out in Appendix B.	**Blue** – materially correct but includes optimistic assumption

Assessment

- Red — 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
- Green — We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Oracle EBS	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Financial reporting, expenditure, payables, payroll and journals
Fixed asset register (Excel)	ITGC assessment (design, implementation and operating effectiveness)	●	●	●	●	PPE

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

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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 that your monitoring officer has issued a section 5 report in relation to the provision of statutory functions in respect of unaccompanied asylum seeker children (UASC). We are aware of this matter and that the Council is currently going through legal proceedings in respect of this.
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.

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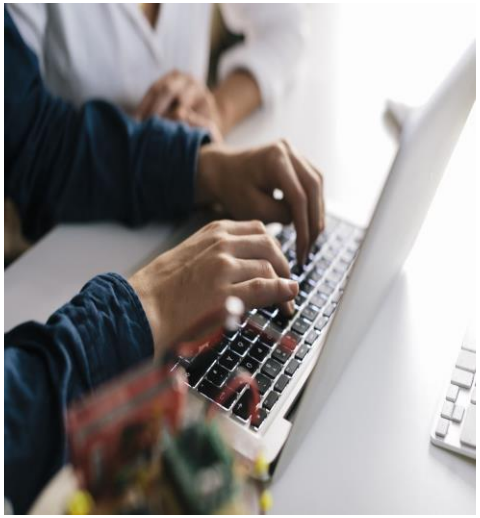
2. Financial Statements: other communication requirements



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. • As at the date of writing this report, there are currently 3 investment balances confirmations are outstanding from the respective financial institutions Except from the above, 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 and has resulted in some delays in the audit process.

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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. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • 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 • 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. 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: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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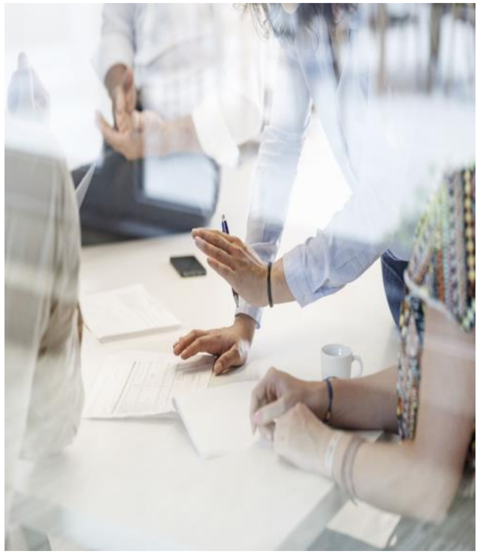
2. Financial Statements: other responsibilities under the Code

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. No inconsistencies have been identified. The Annual Governance Statement (AGS) has recently been shared with us in draft form. We are currently doing the required work on this draft version as set out on pages 4 and 5 of the report. We also understand that the AGS is still subject to internal sign off before it is final. Our audit opinion can only be issued when the AGS is in its final form. Subject to the satisfactory completion of the outstanding matters detailed on pages 4 and 5, we plan to issue an unmodified opinion in respect of other information.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • 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, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. Subject to the satisfactory completion of the outstanding matters detailed on pages 4 and 5, We have nothing to report on these matters.



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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. 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. The NAO recently issued guidance that requires us to provide an assurance statement by 22 December 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 are currently in dialogue with the NAO to agree a date for when we expect to complete this work.
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 January 2024 but there is currently no date set for the completion of WGA as explained above.

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3. Value for Money arrangements

Approach to Value for Money work for 2022/23

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

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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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

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 Grant Thornton International Transparency report 2023.

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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.
Non-audit related			
None	Nil	N/A	N/A

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee via our Audit Plan. None of the services provided are subject to contingent fees.

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4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff [that would exceed the threshold set in the Ethical Standard]

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

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Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – Audit of Financial Statements

C. Follow up of prior year recommendations

D. Audit Adjustments

E. Fees and non-audit services

F. Auditing developments

G. Management Letter of Representation

H. Audit opinion

I. Audit letter in respect of delayed VFM work

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A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

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B. Action Plan – Audit of Financial Statements

We have identified 3 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 2023/24 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
High	<u>Cash reconciliation – school's salaries account</u> As part of the work conducted on cash and cash equivalents, we selected for testing the school's salaries bank account. The cashbook figure for this bank account was £5.4m. As part of our testing we requested from management the bank reconciliation for this account. We were informed by finance that this bank account is managed by a third party on behalf of the Council. The third party therefore supplied us with what they considered to be a bank reconciliation. What we received from the third party **<u>was not</u>** a bank reconciliation. Instead, we were provided with a summary of all transactions going through the bank account since 2011. To obtain assurance that the cashbook figure of £5.4 million was correct, we obtained a direct confirmation from NatWest as to the balance as at 31 March 2023. The balance confirmed by NatWest was £2.6 million. Having identified a £2.8 million reconciling difference we escalated the matter with corporate finance. Your corporate finance team then performed a retrospective bank reconciliation of the account. This bank reconciliation identified that the cashbook figure of £5.4 million was misstated because the reconciling item of £2.8 million was not in fact a true reconciling item. The £2.8 million related to a HMRC payment in April 2022 which had not been correctly reflected in a ledger. This misstatement is reported to you as an unadjusted misstatement in Appendix D. What this misstatement highlights is the crystallisation of the control risk of not performing bank reconciliations. Give the number of size of payments going through this bank account, we would expect it is reconciled monthly with the ledger. Bank reconciliations are a key control to prevent/detect fraud as well as error. We therefore assess this as a high priority recommendation for management.	For management to ensure bank reconciliations are performed and reviewed on a monthly basis to ensure the financial statements are complete and accurate. Management response **<u>Agreed</u>** Discussions are underway to determine whether this function needs to be undertaken alongside other bank reconciliations in the central finance team. In the meantime assurance will be sought that this is being undertaken correctly on a monthly basis.

Controls

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

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B. Action Plan – Audit of Financial Statements - continued

Assessment	Issue and risk	Recommendations
Low – best practice recommendation	**Journals – policies and procedures** As explained on page 10, our work this year identified that journals can be posted by a user other than the person who prepared it. We were also told that this functionality should only be used in rare circumstances. Whilst our testing has not identified any issues with the journals posted by a user that did not create the journal, we have agreed with management the need to strengthen and communicate policies and procedures about the appropriate use of the functionality and the need to retain an audit trail as to the rationale of it being used.	1. To ensure there are clear policies and procedures in relation to the use of this functionality and that people who access the ledger system are aware of them. 2. Where this functionality has been used, management should ensure there are clear policies and procedures to store the rationale as to why it has been used, and this should be reviewed and approved by a separate person. Management response Agreed Agreed, in the majority of cases this has been found to be where a member of staff has left the organisation and their manager/team have posted the journal. In future we will ask that the journals are deleted and resubmitted. We will draft revised guidance and a new process to support this.
Medium	**Adult social care provision** As part of our review of your estimate, we have concluded that the assumptions used by management are optimistic leading to an understatement in the provision for doubtful debt. More information is set out on pages 27 and 28.	For management to obtain updated information regarding default rates in adult social care debtors to inform the percentages they apply to aged debt. Management response Agreed Updated information on default rates for adult social care debtors will be obtained to inform the percentages applied to aged debt

Controls

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

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C. Follow up of prior year recommendations

We identified the following issues in the audit of Kent County Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. 2/3 recommendations have not been implemented. The 3rd recommendation has been implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Journals authorisation:** 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 10. **Prior year recommendation:** We recommend that management reassess the journal control environment such that they are satisfied that the residual risk meets the Authority's risk appetite. **Prior year management response** We have provided external audit with detailed processes which demonstrate why we do not consider there to be a control risk. However, we will, as requested, review the journal control environment and consider whether there are changes that could be made to reduce the residual risk. Our aim is to do this before July 2023.	**Auditor update 2022/23:** There has been no change to the journal control environment for 2022/23. We continue to flag the lack of journal authorisation in our Audit Findings Report to ensure there is complete transparency of the issue with the Governance and Audit Committee and to encourage best practice.

Assessment

✓ Action completed

X Not yet addressed

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C. Follow up of prior year recommendations - continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Sevington capital payments:** KCC are releasing payments to suppliers without obtaining signed certificates of completion. **Prior year recommendation:** 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. **Prior year management response** A completion certificate is not appropriate for these works as they are on-going. The assurance that the works have been completed to the required specification was provided through a verification process. KCC Project Manager received monthly applications, and these were verified before an order was raised in the system (WAMS). The order was approved by the Director before it was committed. The contractor then issued an application which was checked against the approved application and payment was arranged. The payment was approved by the Director and Corporate Director. In addition to this process, consultants were employed by DfT to review all applications and payments so that DfT were satisfied and in turn Defra satisfied also. Once final payment has been approved, a completion certificate will be issued. As recommended, the Council's internal audit service will review the wider control environment relating to the project management including the arrangements to identify and mitigate conflicts of interest.	**Auditor update 2022/23:** No issues identified from testing carried out in the current year. The total spend on Sevington was not material for 2022/23.

Assessment

✓ Action completed

X Not yet addressed

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C. Follow up of prior year recommendations – continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	School's bank accounts: Bank reconciliations are not being performed by school's as at 31 March. Prior year recommendation: KCC should ensure all school's complete their annual bank reconciliation returns as at 31 March. Prior year management response We are reviewing our year end timetable to consider how we can enable schools to complete their reconciliations as at the 31 March. We will ask that those schools with material balances are prioritised by the Schools' Finance team as smaller schools may have less capacity to meet the deadlines.	Auditor update 2022/23: A detailed update on this issue is set out on page 20. For 2022/23, there has been not change – school's continue to perform their bank reconciliation prior to yearend. As a result of this issue, we projected the misstatement to be £16.8m. Last year we communicated this to management as a medium priority recommendation. We now consider this to be a high priority recommendation and expect management to implement the change for 2023/24. **Management comment 2022/23:** Management have informed us that they did meet with the school's team as soon as the prior year recommendation was made in order to implement the action for 2023/24. However, the recommendation last year was raised after instructions for closedown were sent to schools are preparations had begun. This meant there was no feasible time for management to implement the recommendation for 2023/24. Management have confirmed that they will meet again with the schools' team this year to ensure this recommendation is implemented for 2023/24.

Assessment

✓ Action completed

X Not yet addressed

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D. Audit Adjustments – adjusted misstatements

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

There are no adjusted misstatements that impact the group's balance sheet of CIES.

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D. Audit Adjustments – unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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
Operating expenditure – recharges overstatement: Your ledger contains internal recharges between different department. These internal recharges increase expenditure and increase income. They are important from a management accounting perspective but they are not genuine transactions to be reported in your financial statements. You have a process to identify and clear these transactions as part of your financial reporting process. This year however, this process was incomplete and £3.5m of expenditure transactions were not netted off against income. This means that expenditure is overstated by £3.5m and revenue is overstated by £3.5m. We therefore report this overstatement to you as an unadjusted misstatement. Note, the misstatement has no net impact on net expenditure or your general fund.	Council and Group	**Expenditure** (3,509) **Revenue** 3,509	Nil	Nil	Not material
Completeness of Expenditure – invoices received: As part of our completeness testing, we obtained a listing of all the invoices received in April, May and June 2023. We then tested a sample of these transaction to ensure that where the expenditure relates to 2022/23, it has been correctly accrued for. There was 1 invoice for £1,150 where it related to 2022/23 but was not accrued for. This is below the Council's de-minimus policy (£5,000) for accruing expenditure and so it is consistent with the Council's accounting policy not to accrue for this transaction. Nonetheless, we must assess the impact this is having on your financial statements and so we have extrapolated the error over the population tested. The extrapolation came to £2,994k. This confirms that your accounts are not materially misstated but because it exceeds triviality, we are required to report this to you as an unadjusted misstatement.		**Expenditure** 2,994	**Creditors** (2,994)	2,994	Not material and extrapolated

D. 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
Operating expenses sample testing: We identified that two of our samples had misstated amounts, as they were recorded to the incorrect financial period. £993.71 for supported living relates to 21-22 FY and was incorrectly recorded to 22-23 FY. £230.79 for designated bed scheme scheduled payment related to 21-22 FY and was incorrectly recorded to 22-23 FY. Individually, these were below the Council's de-minimus policy and so were not accrued for. Nonetheless, we must assess the impact this is having on your financial statements and so we have extrapolated the error over the population tested. The extrapolation came to £2,334k. This confirms that your accounts are not materially misstated but because it exceeds triviality, we are required to report this to you as an unadjusted misstatement.	Council and Group	Expenditure (2,334)	Opening general reserve 2,334	(2,334)	Not material and extrapolated
Salaries bank account: As part of the work conducted on cash and cash equivalents, we selected for testing the school's salaries bank account. The cashbook figure for this bank account was £5.4m. As a result of our testing, we identified that the figure was overstated by £2.8 million because of a failure to record a payment of £2.8 million to HMRC over 1 year ago. We have raised a control finding in Appendix B, but we are also required to report the unadjusted misstatement of 2.8 million to you in this schedule. Therefore cash is overstated by £2.8 million and creditors is overstated by £2.8 million. There is no net impact on total expenditure and the general fund.	Council and Group	Nil	Creditors 2,864 Cash (2,864)	Nil	Not material and extrapolated

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D. 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
Commercial services – creditor/debtor overstatement: As part of our testing of creditors, we selected for testing several transactions pertaining to commercial services. These are intercompany transactions i.e. transactions between KCC departments. As a result they ought not be recorded in the ledger at all. We raised the issue with management that did a complete review of their creditors listing. This identified a total of £14,393,917 worth of creditor transaction that have been incorrectly coded. The impact of this is that creditors is overstated and so is debtors. There is no net impact on the reported position.	Council and Group	Nil	**Creditors** 14,394 **Debtors** (14,394)	Nil	Not material
School's cash bank reconciliation: As part of our testing of cash held by KCC maintained schools we identified that the bank reconciliations are being performed the yearend. To determine the impact this is having on the financial statements we selected a sample of schools to test and compared the cashbook figure to the yearend balance confirmed by the external financial institution. On our sample, it showed that the cashbook figure was lower than the figure confirmed in the bank confirmations. We extrapolated the difference across all schools to quantiy the potential misstatement. This extrapolation came out to be £16.8 million. This is not material but it does exceed triviality and so we are reporting it to you as an unadjusted misstatement. Note – this is to be understood as an **uncertainty** on the basis that it is not a bone fide misstatement but rather just a projection. Moreover, it is also not possible to determine what the other side of the accounting transaction is. We have presented it as an understatement of revenue simply to ensure we are presenting the worst case scenario of the entire misstatement impacting the CIES.	Council and Group	**Revenue** (16,837)	**Cash** 16,837	(16,837)	Not material and extrapolated

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D. 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: As explained on page 25, 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. We quantified what the impact of this is and estimated that the potential overstatement in your depreciation estimate is £12 million. Having done this work we are therefore satisfied that this issue does not lead to a material misstatement in your financial statements. 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** 11,984	**PPE** (11,984)	11,984	Not material - estimated
Provision for doubtful debt – social care debtors: As set out on pages 27 and 28, we concluded that the assumptions within your provision for doubtful debt of social care debtors were optimistic. Based on our sensitivity analysis, we have concluded that the estimated understatement in the provision is £10.9 million. As this exceeds triviality, we are reporting this to you as an unadjusted misstatement.	Council and the Group	**Revenue** 10,883	**Debtors** (10,883)	10,883	Not material - estimated

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D. 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
Summary impact	Council and Group	Expenditure 12,644 Revenue (5,954)	Creditors 14,264 Debtors (25,277) Opening reserves 2,334 Cash 13,973 PPE (11,984)	6,690	Not material
Net impact	Council and Group	6,690	(6,690)	6,690	Not material

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D. Audit Adjustments – prior year unadjusted misstatements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Understatement of energy accrual: In the prior year we identified that an accrual was understated. The impact on the 2022/23 financial statements is presented in the table besides.	Expenditure (3,146)	Opening reserves 3,146	 (3,146)
Depreciation: In the prior year we determined that depreciation was undercharged by £6 million. As accumulated depreciation is written out on revaluation, we are satisfied that the prior year misstatement has no impact as at 31 March 2023. **Note** – a similar issue for 2022/23 has arisen and this is captured in the schedule of 2022/23 unadjusted misstatements.	Nil	Nil	Nil
Overstatement of fair value of equity investment of Kent Holdco Ltd: In the prior year, we identified that the valuation of your investment in Kent Holdco Ltd was overstated by £9,397,000. The error arose because the estimate included cashflows that did not relate to the investment but rather the activities of the main Council itself. For 2022/23, we confirmed that these cashflows were excluded in the fair value estimate. Therefore, the impact of this misstatement as at 31 March 2023 is nil.	Nil	Nil	Nil
Extrapolation of errors in our operating expenses completeness testing: In 2021/22 we extrapolated an error from our operating expenses completeness testing which projected that creditors was understated as well as PPE additions. The current year impact is however nil as it was a balance sheet only transaction.	Nil	Nil	Nil
Total	Expenditure (3,146)	Opening reserves 3,146	 (3,146)

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.

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D. 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 15 : Credited to Services	In draft accounts within Note 15 Credited to Services, the department of transport grant amount was overstated by £3,019k which in turn overstated the total of credited to services disclosure. Management agreed to correct the total of department of transport grants from £12,002k to £8,983k which will make the total of credited to services of £1,201,814k. Note – this is disclosure only as the original overstatement was not recognised in the ledger.	To update note 15 accordingly	✓
Note 35 : Dedicated School Grants:	Following publication of the draft financial statements, management proposed an update to the disclosure of the dedicated school's grant note. The updates were purely presentation and did not impact the bottom line or the net reported position of the Council. We have audited the revised disclosure note and not identified any issues.	To update note 35 accordingly	✓
Note 6: Senior Officer Remuneration	As part of the senior officers remuneration testing, we identified that pension contributions of £10,362 were not disclosed in respect of the Corporate Director Children, Young People & Education) . Management has updated the note accordingly.	To update note 6 accordingly	✓
Note 16 - PPE	During the 2021-22 audit it was noted that fully depreciated Vehicles, Plant and Equipment (VPE) no longer in use had not been written out from GBV and accumulated depreciation and management agreed that this would be actioned in 2022-23 as the figures involved at that stage were not material. However, during the 2022-23 audit it became apparent that fully depreciated Schools IT had not been included within the analysis in 2021-22 and when taken into account the impact on GBV and accumulated depreciation is material and therefore a Prior Period Adjustment is required. This misstatement only impacts the disclosure note of Property, Plant and Equipment (PPE) and has no impact on the balance sheet nor general fund. The prior period misstatement in the 01 April 2021 opening balance was £53.5 million. An additional disclosure note has also been added to the financial statements to explain the PPA.	To update note 16 accordingly	✓

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D. Audit Adjustments – misclassification and disclosure

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Note 6: Senior officers remuneration	Your draft accounts included a prior period restatement of the 2021-22 figures in the senior officers banding disclosure note. In accordance with IAS 8, prior period figures should only be restated where the error is material. In our view, the error identified in the prior period disclosure was not material and so no restatement is required. We therefore report this to you as an unadjusted misstatement. Note – we have performed work to assure ourselves that the restatement is accurate and complete. There was an error in the prior period audited accounts and we are satisfied that management have complied with IAS 8 in explaining the nature of the error in the prior period and how it was identified in the current year.	To not process the prior period restatement on the grounds of materiality	X
Note 15: Grant Income	**Prior period adjustment on Grant Income Disclosures:** In the draft financial statements, management had restated the 2021-22 figure for 'grants credited to services' in note 15. In the prior year audited accounts the figure was £1,217,350k and this was restated to £1,265,492k in 2022-23 draft accounts. This was a material change of £48,142k. In reviewing IAS 8 which is the accounting standard that sets out the disclosure requirements of a prior period restatement, we challenged management whether their disclosure met the requirement to sufficiently explain the nature and impact of the prior period restatement. In response, management has included additional narrative to fully comply with the disclosure requirements of IAS 8. Note – at the time of writing this report, we are still reviewing the completeness and accuracy of the prior period restatement. This review is subject to internal consultation with our technical team.	To update note 15 accordingly	✓

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D. Audit Adjustments – misclassification and disclosure

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Note 16: capital commitments	**Note 16 - capital commitments** In the draft financial statements, the Council disclosed that contractual capital commitments as at 31 March 2023 was circa £65m. This estimate was based on returns from budget holders where they were asked to confirm if they had any capital commitments in excess of £10 million. We challenged this estimation process as we feel it provides insufficient evidence to confirm that the estimate is materially accurate. Following our challenge, management then obtained a list of all outstanding capital purchase orders as at 31 March 2023 and using this information, formed an estimate of the capital commitments. This new process identified that the figure for capital commitments as at 31 March 2023 was £119m which is materially different to the initial estimate. We have reviewed and checked management's updated process to estimate the disclosure and we are satisfied that it is reasonable. Going forward, we expect management to use this new updated process to estimate the disclosure.	To update note 16 accordingly	✓

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E. Fees and non-audit services

	Proposed fee
Scale fee	**£141,125**
Ongoing increases to scale fee identified in 2019/20, 2020/21 and 2021/22	
Audit of Group Accounts (not included in the Scale Fee)	£5,260
Journals testing	£3,000
Additional audit procedures arising from a lower materiality	£5,260
Enhanced audit procedures for Property, Plant and Equipment including use of auditor's expert	£7,522
Increased audit requirements of revised ISAs 540	£6,000
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Raising the bar/regulatory factors including the use of an EQCR and additional review	£13,500
Infrastructure assets	£2,500
Payroll, additional testing	£500
Brought forward ongoing fee from the prior year	**£204,667**
New issues for 2022/23 set out in the Audit Plan	
Additional work on Value for Money (VfM) as a result of 7 risks of significant weakness	£29,644
New audit requirements in relation to ISA 315	£5,000
Additional audit requirements in relation to work on the triennial revaluation of the LGPS	£6,000
Total fees agreed in the 2022/23 Audit Plan	**£245,311**

We confirm in the table our proposed fees for the audit and provision of non-audit services.

Note all fee variations are subject to PSAA approval.

The fee in the financial statements reconciles to the £245,311 communicated in our Audit Plan.

Continued overleaf . . .

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E. Fees and non-audit services

	Proposed fee
Proposed fee variations for 2022/23 post Audit Plan	
Journals testing – additional work around users posting journals that they did not create	2,090
PPA – work to gain assurance over management's proposed PPA including a consultation with our internal technical team	3,660
Remove the infrastructure assets fee variation as no longer impacts 2022/23	(2,500)
Total proposed fee	**£248,606**

Non-audit fees for other services	**Proposed fee**
Audit Related Services	
Teachers' pensions	10,000
Non-audit related	
None	-
Total non-audit fees (excluding VAT)	**£10,000**

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

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F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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G. 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

23 November 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 29 February 2024 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

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