Kent County Council audit plan

Year ending 31 March 2024

March 2024

Contents

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Key matters

Financial Sustainability - national context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Financial Sustainability – local context

The financial position for Kent County Council has deteriorated over the past couple of years. In 2022-23 a deficit of £47.1m was recorded, with the deficit being funded from useable revenue reserves which had fallen to £416m as at 31 March 2023. Budget papers presented to Council in February 2024 indicate that the Council is again forecasting an overspend for 2023-24 of £35.6m before management action. The 2024-25 budget proposed is balanced, but still requires the use of reserves to achieve this.

If the Council fails to deliver savings and take a grip of unplanned budget growth the Council will continue to record significant deficits. 2024-25 budget papers note the use of reserves at a level lower than they are being replenished, so overall there should not be a reduction in reserves. Without rigour being applied to ensure this is the case going forward, the Council's useable revenue reserves will run out. The Council therefore remains at a 'tipping point' and unless the Council recovers the financial situation, then your S151 will have no other option but to publish a section 114 notice in the foreseeable future. Our 2022-23 Auditor's Annual Report highlighted this issue as a significant weakness in arrangements and we reported a key recommendation as a result.

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Key matters

National context

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Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers. The Council is a large and complex authority which invests significant experienced resource to produce accounts. It is vitally important that this level of investment with appropriate succession planning is maintained.

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Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Acting Corporate Director, Finance.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work with your officers in the most efficient way possible – whether that be working on-site, working remotely, or on a hybrid basis. We will establish a working protocol in advance of the audit fieldwork. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Acting Corporate Director, Finance quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Governance and Audit Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- Our Value for Money work will consider progress made against recommendations made in prior years.
- We will continue to provide you and your Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

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Key matters - continued

Our Responses (continued)

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue– refer to page 10.

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Introduction and headlines

Purpose

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

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. This audit plan sets out the implications of the 2020 code on this audit. Should the 2024 updates to the Code significantly change our work, we will bring this to your attention.

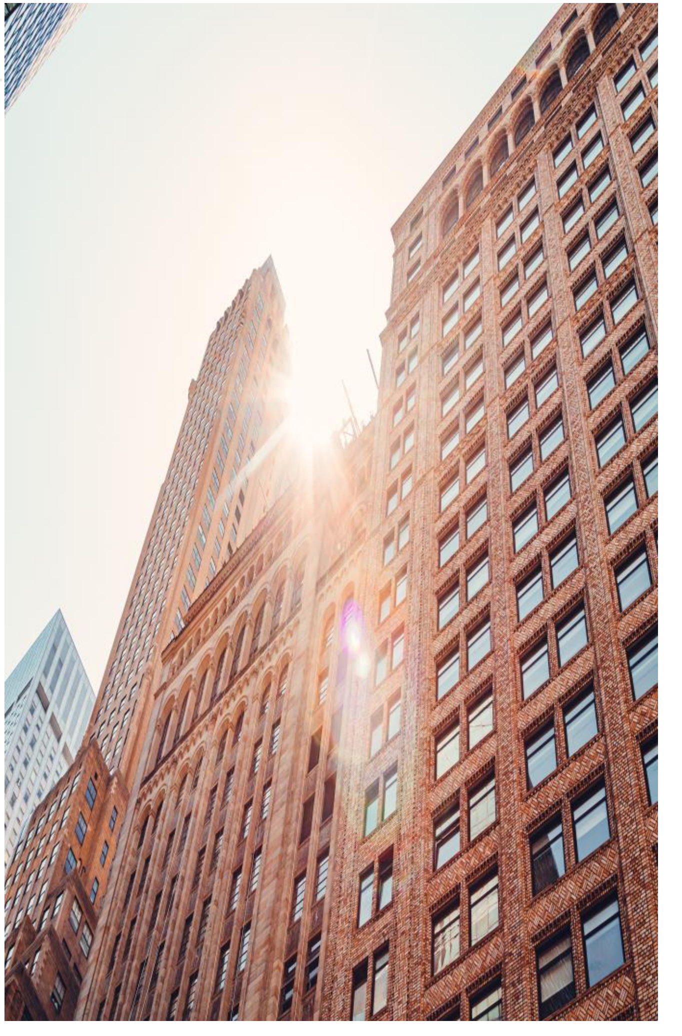
Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



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Introduction and headlines

Significant risks

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

- Risk of management override (presumed);
- Valuation of property, plant and equipment and investment property; and
- Valuation of defined benefit pension asset / liability

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

Group Audit

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

- Global Commercial Services Group Ltd
- Kent County Trading Ltd
- Commercial Services Kent Ltd
- Commercial Services Trading Kent Ltd
- Kent Top Temps Ltd
- Gen2 Property Ltd
- Invicta Law Ltd
- Cantium Business Solutions Ltd
- EDSECO Ltd
- CSG Global Education Ltd
- Bowerhouse Solar II Ltd
- Lifecycle Management Group Ltd
- Prospects Payroll Ltd

We will also consider the accounting for the Council's joint ventures:

- Hampshire and Kent Commercial Services LLP
- Luton and Kent Commercial Services LLP
- Surrey and Kent Commercial Services LLP
- Dudley and Kent Commercial Services LLP
- Dorset and Kent Commercial Services LLP

Materiality

We have determined planning materiality to be £43m (PY £43.5m) for the group and £42m (PY £43m) for the Council, which equates to 1.5% of your prior year] gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

As part of our risk assessment, we have considered the impact of unadjusted prior period errors. We have held our assessment of performance materiality at 65% of the financial statement materiality for both Council and group.

Clearly trivial has been set at £2.1m (PY £2.1m) for the Council and £2.15m (PY£2.1m) for the group.

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Introduction and headlines

Value for Money arrangements

Our 2022/23 judgement on your arrangements to secure value for money identified there were significant weaknesses in all categories:

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

Our planning work for 2023/24 is not yet complete, but we expect the significant weaknesses identified in 2022/23 to still be present.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our planning and interim work has been undertaken remotely between November and February. Our final visit will begin in July 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers, however, we can continue to work remotely or in a hybrid manner if that is what the Council prefers.

Under the new contract with PSAA, the scale fee for the audit will be £433,444 (PY: £245,311 – scale fee with known additions, final fee to be agreed) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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Significant risks identified

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

Risk	Risk relates to	Reason for risk identification
Risk of fraud and error in revenue transactions	Council and Group	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. 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

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings (including investment property)	Council and Group	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 of material misstatement. **Pinpointing the risk:** We plan to pinpoint the significant risk around the following • assets which are material; • assets where the valuation movement differs significantly to what we would expect based on indices; • assets where we are aware of a significant change in any of the key assumptions from the prior period; and • any other factors which in our auditor judgement increases the risk of material misstatement in a particular asset The pinpointing of the risk around specific items can only be performed at the final accounts stage once we have been able to perform the above risk assessment procedures.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assess the value of a sample of assets in relation to market rates for comparable properties. This will include operational land and buildings as well as investment properties.

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the defined benefit pension asset / liability	Council and Group	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 (£62m in the Council's balance sheet at 31 March 2023, having reduced from £546m at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. Given the movement between 31 March 2022 and 31 March 2023, there is a chance that the Pension Fund will record a pension asset at 31 March 2024 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 asset or liability as a significant risk	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • If a pension asset is recorded, ensuring that the asset recorded in the financial statements meets the requirements of IFRIC 14. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtain assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

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Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls (presumed risk)	Council and Group	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 of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

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Group audit scope and risk assessment

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

We are aware of changes in the Kent County Council Group for the 2023-24 financial year, but do not expect them to have a material impact on the group financial statements or the work we have planned to do to gain assurance on the components of the group.

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Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Kent County Council	Yes	■ Audit of the financial information of the component using component materiality	Details of the significant risks identified for the Kent County Council audit are set out on pages 10 – 13.	Full scope audit performed by Grant Thornton UK LLP
Commercial Services Kent Ltd	No	■ Audit of one or more classes of transactions, account balances or disclosure relating to significant risks of material misstatement of the group financial statements	None	Audit of expenditure, carried out by the component auditor, which will then be reviewed by the group audit team. The nature, time and extent of our involvement in the work of component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.
Global Commercial Services Group Ltd	No	■ Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP
Kent County Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
Commercial ServicesTrading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
Kent Top Temps Ltd	No		None	Analytical review performed by Grant Thornton UK LLP

Table continued overleaf…

Audit scope

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

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
GEN 2 Property Ltd	No	Analytical procedures at group level	None	Analytical review performed by Grant Thornton UK LLP
Invicta Law Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
Cantium Business Solutions Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
EDSECO LTd	No		None	Analytical review performed by Grant Thornton UK LLP
CSG Global Education Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
Bowerhouse Solar II Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
Lifecycle Management Group Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
Prospects Payroll Ltd	No		None	Analytical review performed by Grant Thornton UK LLP

We will also consider the accounting for the Council's joint ventures:

- Hampshire and Kent Commercial Services LLP
- Luton and Kent Commercial Services LLP
- Surrey and Kent Commercial Services LLP
- Dudley and Kent Commercial Services LLP
- Dorset and Kent Commercial Services LLP

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Other matters

Other work

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

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

Other material balances and transactions

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

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Progress against prior year audit recommendations

We identified the following issues in our 2022/23 audit of the group and Council's financial statements, which resulted in 4 recommendations being reported in our 2022/23 Audit Findings Report. The 2022/23 Audit Findings Report was agreed with management and presented to those charged with governance in November 2023. As such, there has been limited progress on the findings, that we will continue to follow up on as part of our 2023/24 audit.

Assessment	Issue and risk previously communicated	Recommendation made and response	Update on actions taken to address the issue
X	Cash reconciliation – school salaries account Bank reconciliations were not performed as a matter of course on the school salaries account. When the Council performed a reconciliation, at our request, it was identified that the £2.8m reconciling item was not in fact a true reconciling item, but an HMRC payment from April 2022 that had been incorrectly recorded in the Council's accounting records	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 Agreed	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. To be followed up during 2023/24 audit.
X	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. To be followed up during 2023/24 audit.

Assessment

- ✓ Action completed
- X Not yet addressed

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Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Recommendation made and response	Update on actions taken to address the issue
X	VAT uncertainty Audit testing of the March 2023 VAT debtor identified a difference between the amount claimed and the among paid. £4.28m of the difference relates to a 2019/20 transaction pertaining to Kings Hill. This was a complex transaction, involving two voluntary disclosures to HMRC in respect of under paid and overpaid VAT	1. To obtain expert tax advice in respect of this transaction and based on their advice, make appropriate disclosures to HMRC to ensure the correct amount of VAT has been paid/reclaimed. Management should also provide evidence of the resolution of this issue to external audit ahead of the 2023/24 final accounts. 2. To review the processes and controls in place around VAT to ensure issues like this are prevented, detected and rectified correctly. As part of this, management should review whether they have the requisite skills and knowledge around complex VAT transactions. Where it is found that there is a gap, management should either recruit or procure this as appropriate. Management response Agreed	Advice will be sought from our tax specialists where there are complex VAT transactions. In the particular example with Kings Hill, advice will be sought to ensure the appropriate disclosure is submitted to HMRC for final resolution to this matter. To be followed up during 2023/24 audit.
X	Fully depreciated VPE As part of our audit work, we identified a material amount of VPE which was fully depreciated. Management reviewed this balance and concluded that there was insufficient evidence to confirm whether those assets existed or not. As a result, these assets were derecognised through a prior period adjustment as the amount was material.	Going forward, management should ensure that there is a regular review of the asset register to derecognise assets where they no longer exist. In doing this review, management should seek to obtain relevant and proportional information from school's pertaining to assets they hold. Management response Agreed	To be followed up during 2023/24 audit.

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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

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. <u>Council</u> Materiality at the planning stage of our audit is £42m, which equates to 1.5% of your prior period gross expenditure for the period. <u>Group</u> Materiality at the planning stage of our audit is £43m, which equates to 1.5% of the groups prior period gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100,000.

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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.

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.1m (PY £2.1m). In the context of the Group, we propose that an individual difference could normally be considered to be clearly trivial if it less than £2.15m (PY £2.2m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

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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.

	Group Amount	Council Amount	Qualitative factors considered
Materiality for the financial statements	£43,000,000	£42,000,000	This benchmark is determined as a percentage of the Council's Gross Cost of Services Expenditure in year, which has remained at approximately 1.5%.
Performance materiality	£27,950,000	£27,300,000	Performance Materiality is based on a percentage of the overall materiality. The threshold has been remained at 65%.
Materiality for specific transactions, balances or disclosures – senior officer remuneration	£100,000	£100,000	Senior officer's remuneration disclosure is a sensitive disclosure. We have therefore set a lower level of materiality for this disclosure.
Trivial matters	£2,100,000	£2,100,000	This balance is set at 5% of financial statement materiality(rounded).

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IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle EBS	Financial reporting, expenditure, payables, payroll and journal entries	We will perform work to obtain assurance that the ITGCs are designed and implemented effectively. We do not plan to test the operating effectiveness of ITGCs
Fixed asset register (Excel)	PPE	We will perform work to obtain assurance that the ITGCs are designed and implemented effectively. We do not plan to test the operating effectiveness of ITGCs

In addition, our IT audit team will perform an assessment of the Council's cyber security arrangements.

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Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024.

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

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Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Our 2022/23 judgement on your arrangements to secure value for money identified there were significant weaknesses in all categories:

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

Our planning work is not yet complete, but we anticipate risks of significant weakness in the same areas in 2023/24.

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

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Audit logistics and team

Planning and risk assessment
November 2023

Governance and Audit committee
19 March 2024

Audit Plan

Year end audit
July – September 2024

Governance and Audit committee
November 2024

Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Governance and Audit committee
November 2024

Auditor's Annual Report

Paul Dossett, Key Audit Partner

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

Lucy Nutley, Senior Manager

Lucy is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Governance and Audit Committee and finance team. She will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Lucy will also oversee the delivery of our value for money work.

Audited Entity responsibilities

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

Our requirements

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

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on slide 5)
- respond promptly and adequately to audit queries.

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Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Kent County Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £433,444 .

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

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

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

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

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Audit fees

	Proposed fee 2023/24
Kent County Council Audit	£433,444
Total audit fees (excluding VAT)	£433,444

Previous year

In 2022/23 the scale fee set by PSAA was £141,125. The scale fee with known additions was £245,311. The final fee for the 2022/23 audit is still being agreed with management.

Relevant professional standards

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

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IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we are assessing the Council's readiness to implement this new accounting standard. This will be reported to the Governance and Audit Committee at a later date.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

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Independence and non-audit services

Auditor independence

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

In this context, we disclose that:

Paul Dossett, the Key Audit Partner is currently serving their 7th year on the engagement, following approval from PSAA to do so. We have mitigated the familiarity threat by introducing an additional partner reviewing their key judgements to ensure that these are not influenced by the familiarity the Key Audit Partner might have with the Council.

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.

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

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Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees

Service	Fees £	Threats	Safeguards
Audit related			
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

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Communication of audit matters with 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 and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
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 matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
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 (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
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 Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

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