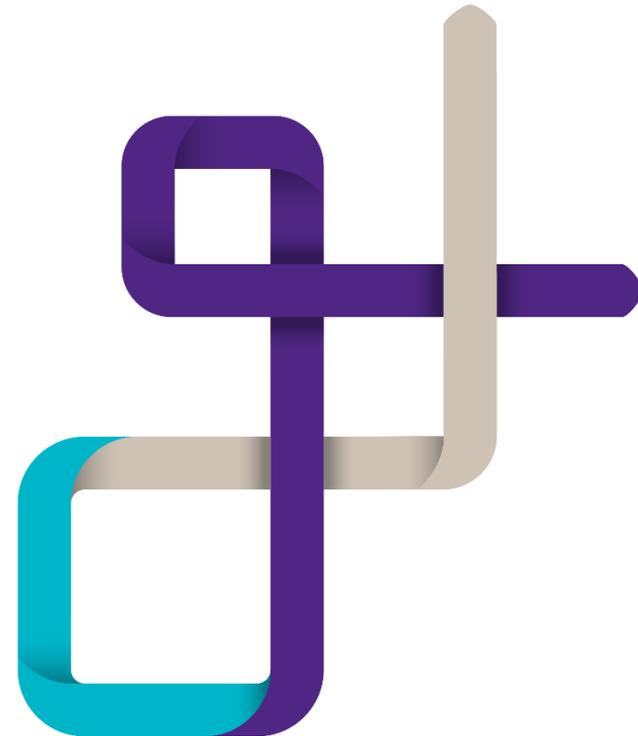


# Audit Findings

*Year ending 31 March 2018*

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Kent County Council  
July 2018



# Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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# Headlines

This table summarises the key issues arising from the statutory audit of Kent County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li><li>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.</li></ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and early July 2018. Our findings are summarised on pages 5 to 11. We have identified a number of minor numerical and disclosure adjustments to the financial statements none of which have resulted in a material impact to the Statement of Comprehensive Income and Expenditure. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 25 July 2018, as detailed in Appendix D. These outstanding items include:</p> <ul style="list-style-type: none"><li>completion of testing of a small number of items of grant revenues</li><li>obtaining sufficient evidence for one item of schools income which was selected for testing</li><li>clearance of any queries arising from manager and engagement review of the audit working papers</li><li>responses raised by the manager and engagement leads review of the accounts</li><li>confirmation as to whether there were any significant events after the balance sheet date and up to the date of signing the accounts</li><li>receipt of management representation letter; and</li><li>review of the final set of financial statements.</li></ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p><b>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</b></p> <ul style="list-style-type: none"><li><b>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</b></li></ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Kent County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 5 to 11.</p>

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# Headlines (continued)

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## 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
- certify the closure of the audit

We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. We are currently unable to certify the completion of the 2016/17 due to an outstanding elector objection which is still being considered, and will therefore also be unable to certify completion of the 2017/18 audit when we give our audit opinion.

To date we have received no questions or objections from electors in relation to the 2017/18 financial statements.

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## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based as outlined in our audit plan issued on 24 April 2018 to the Governance and Audit Committee.

This includes looking at any changes to service delivery, the key challenges facing the authority with respect to financial pressures and matters impacting the local economy that Kent operate within, and applying our financial reporting expertise to ensure accounts and audit regulations are adhered to.

## We have performed:

- An evaluation of the Council's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.
- A review of the narrative report, annual report, annual governance statement and all other non financial disclosures.
- An evaluation of significant estimates and judgements, challenging assumptions used by the authority.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 25 July 2018, as detailed in Appendix D. These outstanding items are set out on page 3.

## 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.

Materiality calculations remains the same as reported in our audit plan on 24 April 2018.

# Significant audit risks

## Risks identified in our Audit Plan

1

### Improper revenue recognition

Under ISA 240 (UK) there is a 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.

2

### 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. .

We identified management override of controls as a risk requiring special audit consideration.

## Commentary

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, 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 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

### Findings

Our audit work has not identified any issues in respect of improper revenue recognition thus far.

### Auditor commentary

Our audit work included but was not restricted to:

- gaining an understanding of accounting estimates, judgements and decisions made by management and considered their reasonableness
- obtaining a full list of journal entries, identifying and testing unusual journal entries for appropriateness and
- evaluating the rationale for any changes in accounting policies or significant unusual transactions

### Findings

Our audit work has not identified any issues in respect of management override of controls thus far.

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

- 3 Valuation of property, plant and equipment**  
 The Council revalues its land and buildings according to the rolling 5 year programme to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

### Auditor commentary

Our audit work included but was not restricted to:

- review of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work
- considering the competence, expertise and objectivity of any management experts used
- corresponding with the valuer on the basis on which the valuation is carried out and challenge of the key assumptions
- reviewing and challenging the information used by the valuer to ensure it is robust and consistent with our understanding
- testing revaluations made during the year to ensure they are input correctly into the Council's asset register
- evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value

### Findings

Our audit work has not identified any issues in respect of the valuation of property, plant and equipment thus far.

- 4 Valuation of pension fund net liability**  
 The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

### Auditor commentary

Our audit work included but was not restricted to:

- identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement
- evaluating the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made
- checking the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from your actuary

### Findings

Our audit work has not identified any issues in respect of the valuation of property, plant and equipment thus far.

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

5

### Employee remuneration

Payroll expenditure represents a significant percentage (31%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls
- performed a substantive analytical review of payroll to analyse movements year on year
- re-performed the year end payroll reconciliation and tested whether payroll accruals (e.g. tax and pension creditors, unpaid leave accruals) have been recognised and are not understated

### Findings

Our audit work has not identified any other issues in respect of the completeness of payroll expenditure thus far.

6

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (69%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention:

### Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- documented and assessed the accruals process, and tested whether year end operating expenditure accruals have been recognised and not understated;
- tested operating expenses on a sample basis as in prior years, including school expenses;
- tested the year end reconciliation of operating expenditure recorded in the general ledger to the subsidiary system

### Findings

Our audit work has not identified any other issues in respect of the completeness of non-pay expenditure thus far.

# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<p>Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable.</p> <p>The authority has three principal revenue streams:</p> <ol style="list-style-type: none"> <li>1) Taxation revenues in respect of council tax and business rates are recognised in the year that the tax was levied by administrative bodies and precepted by the County Council</li> <li>2) Grant income is recognised in accordance with the terms of the grant, whether specific or non-specific</li> <li>3) Income from fees and charges in the provision of services is recognised when the service has been provided or when the title to goods has passed.</li> </ol>	<ul style="list-style-type: none"> <li>The revenue recognition policy is in line with the CIPFA 2017/18 Accounting Code. The authority use accruals based accounting recognising revenue when significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>– Useful life of PPE</li> <li>– Revaluations</li> <li>– Impairments</li> <li>– Accruals</li> <li>– Valuation of pension fund net liability</li> </ul>	<ul style="list-style-type: none"> <li>The valuation of property, plant and equipment and the valuation of pension fund net liability have been considered in detail as a significant risk. There were no issues with the appropriateness of respective policies and assumptions used in the estimate. under relevant accounting framework</li> <li>We did not identify any further issues in relation to any of the other areas of estimate and judgement reflected within the financial statements.</li> </ul>	 <b>Green</b>
<b>Other critical policies</b>		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

# 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
① <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ <b>Written representations</b>	A standard letter of representation has been requested from the Council.
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li data-bbox="520 644 1935 722">• We requested from management permission to send requests to banking institutions to confirm deposits or investments held. This permission was granted and the requests were sent in April 2018, all requests were returned with positive confirmation, confirming balances as at 31<sup>st</sup> March 2018.</li> <li data-bbox="520 736 1980 793">• We requested management to send a letter to the Council's legal counsel during the year. The response received corroborated the the information provided by management on the authorities position. No issues noted.</li> <li data-bbox="520 808 1980 915">• The Lender Option Borrower Option (LOBO) agreements have been reviewed as part of our external confirmation checks in relation to debt. We have noted that the LOBOs held by the council do not contain overly complex or disadvantageous specificities or break out clauses. Therefore the LOBOs operate in a similar manner to standardised bank loans and therefore are satisfied with the accounting treatment of the loan.</li> </ul>
⑥ <b>Disclosures</b>	Our review found no material omissions in the financial statements only minor discrepancies were found.
⑦ <b>Audit evidence and explanations</b>	All information and explanations requested from management was provided. The finance team were very cooperative and we would like to thank the whole team for their approach to the 2017-18 audit.
⑧ <b>Significant difficulties</b>	One difficulty related to the drill down of information from the general ledger at a transactional level. This led to inefficiencies in sampling. However we do recognise the amount of data that is processed by the authority and that it is not always simple to run such reports. Over the last few years we have addressed this jointly in areas where transaction level listings are difficult to obtain such as Debtors and Creditors; steady progress has been made meaning we can more efficiently test these balances, and we will continued to collaborate to make these efficiencies in the audit process.

# Other responsibilities under the Code

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

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix E</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>We will complete our work on the Whole of Government Accounts in August 2018.</p>
④ <b>Certification of the closure of the audit</b>	<p>We will be unable to certify the closure of the 2017/18 audit of Kent County Council until we have concluded upon all elector objections. See page 18 for more details on these objections.</p>

# Value for Money

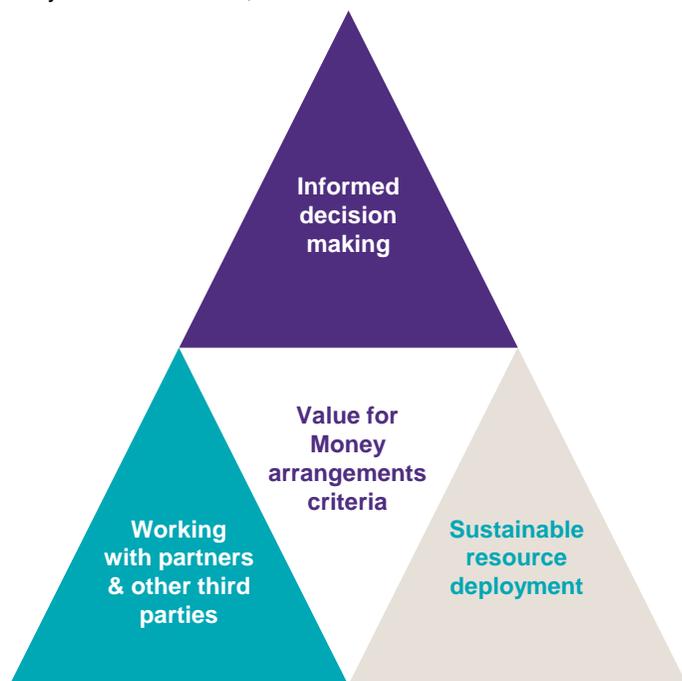
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in March 2018 and identified two of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We communicated these risks to you in our Audit Plan dated 24 April 2018. The risks identified were as follows:

- Medium Term Financial Sustainability; and
- Ongoing planning and implementation of health and social care integration

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

## Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- you have delivered a small net surplus in 2017/18 and in each of the previous 18 years leading up to this financial year, and you have performed medium term financial planning based upon reasonable assumptions that indicates that you will continue to deliver a balanced budget over the period to 31 March 2020; and
- you have appropriate arrangements in place for oversight of changes to the way the Council will function and interact with partners in implementing increased integration around health and social care.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 13 to 17.

## Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

### Significant risk

### Findings

1

#### Medium Term Financial Sustainability

You have a strong track record of delivering to your budgeted spend at the year end. You have set a balanced budget for 2018/19 with a net budget requirement of £946m. It should be noted that the budget is balanced by one-off use of underspends and reserves, and within your forward looking Medium Term Financial Plan there are significant challenges particularly in terms of increasing cost pressures and necessary identified savings gaps of £53.3m in 2018/19 and £34.4m in 2019/20.

We reviewed your Medium Term Financial Plan, including the robustness of assumptions. We also reviewed savings plans in overview and revenue generating schemes. We discussed your plans and outcomes with management, and reviewed how finances are reported to Councillors.

#### Revenue outturn for 2017/18

Despite the continued challenging funding settlement for local authorities nationally, you have continued your good track record of delivery of services within budget and attainment of planned savings and income generation targets.

You delivered a balanced budget for 2017/18 and delivered an outturn position of underspend of £5.4m. This compares to a projected overspend reported to Cabinet in March 2018 of £3.8m overspend based on date for the financial year to the end of January 2018, indicating the success of the actions taken by your officers in the latter part of the year to mitigate and reduce the forecast overspend. This represents good financial performance in the context of the reduction in central government funding in 2017/18, the need to make work-stream savings of £73m, and increasing pressure on asylum services, health and social care and school places.

At a directorate level there was an overspend across Children, Young People and Education of £4.8m which was off set by £2.7m of underspends in Adults Services and Growth, Education and Transport and £7.9m underspends within Financing Items. The key areas of pressure in Education and Young People's Services are due to a reductions in general services income, pressures relating to Edukent Services, additional security costs and increased need for expenditure on Mobile Moves. Within Specialist Children's Services there has been increasing demand on the services particularly fostering services and external placements, and this has increased the need to use more expensive agency workers. You received additional funding from the Home Office to compensate for the increase pressure on Young People's Asylum Services but this area still experienced an overspend of £1.1m. The underspend in Adult Social Care and Health was mainly due to lower than anticipated demand in domiciliary and short term residential placements.

The 2017-18 outturn had the effect of increasing the General Fund by £0.2m and overall reserves increased by £1.1m as shown in the extract below:

Account	Balance at 31/3/17	Provisional Balance at 31/3/18	Movement
	£m	£m	£m
General Fund balance	36.7	36.9	+0.2
Earmarked Reserves	163.2	162.2	-1.0
Surplus on Trading Accounts *	-	0.2	+0.2
Schools Reserves **	28.3	30.0	+1.7

## Significant risk

## Findings

1 **Medium Term Financial Sustainability** **Budget for 2018/19 and 2019/20**  
(continued)

In the 2018/19 year you face the following immediate challenges:

- A net reduction in government grants of £26m primarily the continued phased reduction in the Revenue Support Grant, removal of Transitional Grants, and reduction in the New Homes Bonus. Though noting that the Social Care Support Grant from Central Government was extended into 2018/19.
- Increased spending demands of £75.7m driven by changes in demography/increasing demand, inflation of pay and prices, replacement of one-off items in 2017-18 and other budget realignments.

We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2018/19. We discussed the key items with management and looked at the assumptions behind these and concluded that they were realistically and prudently estimated.

This leaves a challenging “budget gap” of £101.7m. Your approved plan to address this challenge in the 2018/19 budget is as follows:

- Increase in Council Tax and Business Rates. For 2018/19 the Council Tax increase referendum threshold increased to 3%, and you have decided to increase this taxation by the maximum legally permitted level of 2.99%. This along with an increase in the tax base across both Council Tax and Business Rate levied areas will provide the Council with additional recurring income of £51.4m.
- The remaining gap of £50.2m will primarily be addressed by making savings and efficiencies in services and back office functions of the Council. £14.3m of these savings are in financing savings which will not affect services. A further £11.8m of savings will be made in contracts and procurement, £1m in premises, £2.8m in policy savings and £6.4m in staffing costs. You plan to generate £6m of additional income and this leaves a relatively modest £7.8m of savings to be made through service transformation programmes.

Again we have discussed with management the assumptions and estimates which underlie their estimates of the additional revenue which you plan to generate and the savings plans. We challenged the key assumptions and we found that the estimates were reasonable. The Council has a very good track record in setting budgets which are accurate and very close to the reality shown in the outturn position.

You have used the same method behind the 2018/19 budgeting process to set out the estimated position for 2019/20. This shows that the expected pressures of increased spending demands and reduced income from grants will total £67.8m. This is still a challenging gap to address but it is clearly less so than the original 2018/19 year estimate. You have a plan in place for that year to deliver a similar level of savings which relies increasingly on service transformation programmes which are more difficult to deliver than the other types of savings which are identified

## Significant risk

## Findings

1

**Medium Term Financial Sustainability (continued)**

above. We discussed and reviewed the key savings plans with management and they were able to demonstrate to us that there are advanced and well developed plans underlying the transformational savings totals of £7.8m in 2018/19 and £8.1m in 2019/20. Management have not made detailed plans beyond the 2019/20 financial year due to the inherent significant uncertainties in public service financing from Central Government and in demand/demographic changes.

We were satisfied that management have demonstrated that sound financial planning processes and robust financial control are in place.

**Fiscal Indicators and Reserves Levels**

Each year your management assess the level of reserves that they believe it is prudent for the Council to hold. Management base this on these following factors:

- Assumptions regarding inflation and interest rates
- Estimates of the level and timing of capital receipts
- The capacity to manage in-year demand led pressures
- Ability to activate contingency plans if planned savings cannot be delivered
- Risks inherent in any new partnerships
- Financial standing of the Authority (level of borrowing, debt outstanding etc.)
- The Authority's record of budget management and ability to manage in year budget pressures
- Virement and year-end procedures in relation to under and overspends
- The general financial climate
- The adequacy of insurance arrangements

We discussed the level of reserves and these considerations with management. They have concluded that the General Reserve level should be 2.4% of gross expenditure, a level unchanged from the 2016-17 and 2017-18 years. Management have utilised our CFO Insights program to produce an analysis of your total reserves as a percentage of net revenue expenditure, and they have benchmarked Kent County Council against the other 26 County Councils. Your total reserves were at 21% of net revenue expenditure (22% in 2016-17). You ranked 17 out of 27 County Councils on this indicator, but note that the level of reserves varies from 5% to 52% demonstrating clearly that there is

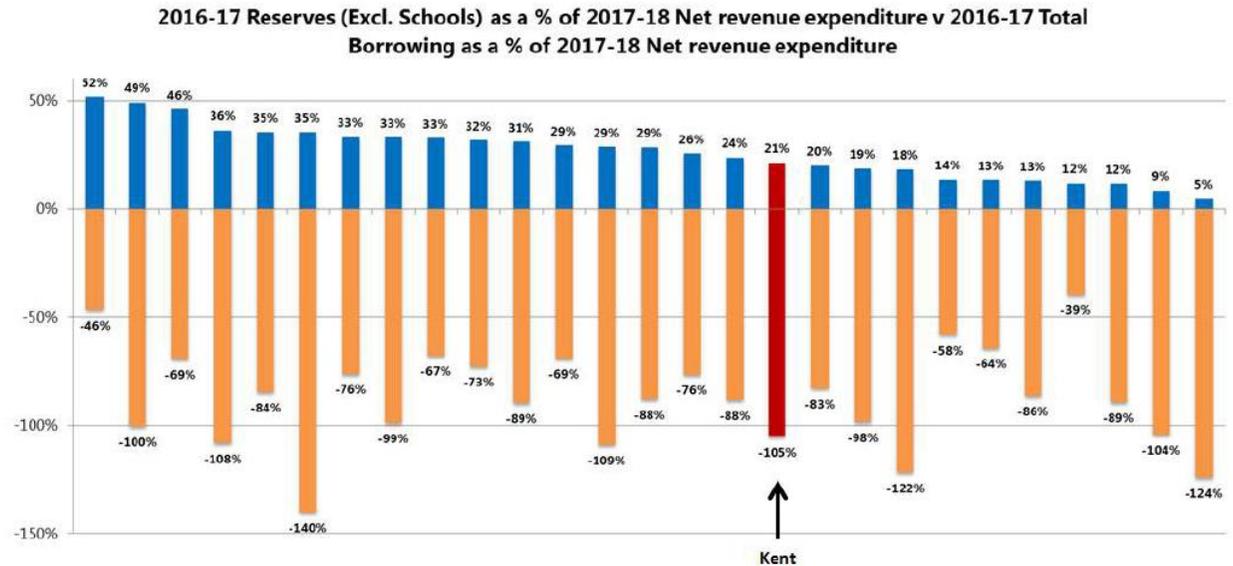
Significant risk

Findings



**Medium Term Financial Sustainability (continued)**

no “correct” level of reserves to hold and it very much depends on local circumstances, risk analysis and risk appetite. We were satisfied that the considerations and assumptions that management have in place to monitor reserves levels at what they consider to be a safe level are reasonable and detailed. The reserves level consideration is presented to and approved by Cabinet each year so we are also satisfied that management report this consideration in an open and transparent way.



Management also monitor various other fiscal indicators on an annual basis including debt costs, overheads and strategic costs as a percentage of net revenues expenditure, contribution from commercial income and local funding. Overall we were satisfied that management had an appropriate process in place for monitoring and reporting fiscal indicators and reserves levels.

Your reserves level provides you with a sufficient cushion to weather the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls. The financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and do not represent an easy way to resolve immediate budget pressures

**On the basis of this work, we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.**

Significant risk	Findings
<p data-bbox="64 262 91 287">2</p> <p data-bbox="167 254 586 334"><b>Ongoing planning and implementation of health and social care integration</b></p> <p data-bbox="167 354 586 608">The Kent and Medway Sustainability and Transformation Plan (STP) was published in November 2016. Kent County Council has a major role in continuing to develop the STP across Kent. Your central role in this transformation project means it continues to present one of the most significant risks for Value for Money.</p> <p data-bbox="167 628 586 963">We will update our understanding of the project management and risk assurance frameworks put in place by the Council to establish how it is identifying, managing and monitoring these risks. We will also review your plans for transformation of social services and integration with other services in the Kent Health Economy, and how you will monitor expenditure and outcomes in the new shared/collaborated services.</p>	<p data-bbox="598 254 1411 277">The work we have completed around this risk included but was not limited to:</p> <ul data-bbox="598 282 1980 419" style="list-style-type: none"> <li>- review of the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks;</li> <li>- review of your plans for transformation of social services and integration with other services in the Kent Health Economy; and</li> <li>- review of your plans for participation in shared governance structures and shared monitoring of expenditure and outcomes within the Kent and Medway STP</li> </ul> <p data-bbox="598 454 1980 534">Our discussions with management and review of the minutes and actions of the Health and Wellbeing Board, and the proposed governance and decision-making structures set out in the internal STP board meetings, shows that detailed plans are in place and your central role is well established.</p> <p data-bbox="598 568 1980 676">Initial financial modelling in the STP plans demonstrate that there are potential efficiency and savings benefits that will benefit the whole region which are significant even if they are only partially delivered. Our discussions with management show that care is being taken to assess the financial impact of changes on Kent County Council taxpayers and protect value for money for electors in the County.</p> <p data-bbox="598 711 1980 791">Detailed plans and costings for Kent County Council have been integrated into the Medium Term Financial Plan through the processes which we have examined in Risk 1 above. We are satisfied that your management are making reasonable and prudent estimates of the investment costs involved in setting up new processes and social care/health collaborated services.</p> <p data-bbox="598 831 1980 886"><b>On the basis of this work, we have concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.</b></p>

# Other statutory powers and duties

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

Issue	Commentary
<b>1</b> <b>Objections from electors</b>	<ul style="list-style-type: none"><li>• During this financial year we concluded upon a 2015/16 accounts elector objection and issued our certificate of audit completion.</li><li>• During this financial year we have considered and concluded upon two 2016/17 accounts elector objection, and we are in the process of concluding upon a third objection. We are unable to issue our certificate of audit completion until we have concluded upon all elector objections.</li></ul>

## Independence and ethics

### Independence and ethics

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.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and 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 December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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 Council.

### 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 Council. The following services were identified:

Service	Fees £	Threats	Safeguards
<b>Non-audit related</b>			
Teachers Pensions Return certification work	£4,378	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 small in comparison to the total fee for the audit of £155,925 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 mitigate the perceived self-interest threat to an acceptable level.
CFO Insights	£10,000	Self-Interest (because this is a recurring fee)	The level of this fee taken on its own is not considered a significant threat as the fee for this work is small in comparison to the total fee for the audit of £155,925 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. The CFOi team provides training and induction to the key features of the Online Platform. The easy to use and intuitive nature of the online platform mean that the officers are able to use the system without ongoing support. The licence is separate to that of the audit and led by a Partner who is not an audit Partner. Throughout the licence period the CFOi team acts independently of the audit team. These factors mitigate the perceived self-interest threat to an acceptable level.
<b>Audit related</b>			
Resolution of objections to the 2015-16 statutory accounts	£29,218	Self-Interest Self-Review	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work is small in comparison to the total fee for the audit of £155,925 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is also non-recurring and the work we do on this and the level of the fee is closely scrutinised and challenged by Public Sector Audit Appointments to ensure that they consider this to be reasonable and consistent at a national level.
Resolution of objections to the 2016-17 statutory accounts	£13,490	Self-Interest Self-Review	The work to resolve objections is carried out subsequent to the issuance of our audit opinion and is not considered to have an impact on our opinion for 2017-18 as a separate accounting period.

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 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.

# Action plan

We have identified 2 recommendations for the Council 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 2018/19 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
1	<p><b>Review of externally supplied information disclosed in the Officers Remuneration disclosure notes</b></p> <p>Our audit testing of the officers remuneration disclosures included selecting a sample of staff from the data provided behind the number of staff disclosed as having a remuneration level above £50k. In this testing we found that there were a number of minor issues with data which was externally supplied by schools leading to a risk that the disclosure could be incorrect particularly where this external data was not subjected to sufficient review for accuracy. Note the disclosure note 6 was amended as a result of the work we completed.</p>	<ul style="list-style-type: none"> <li>We acknowledge that due to the high number of staff being disclosed in these notes that it would be impracticable to review backing documents for all staff, but we would recommend that the externally supplied data is subjected to some review and spot checking back to support. We would also recommend that you clarify instructions issued to external accountants to ensure the accuracy of information they provide.</li> </ul> <p><b>Management response</b> Agreed. Will be implement by 31 March 2018 and responsibility of Chief Accountant</p>
2	<p><b>Review of externally supplied information disclosed in the Related Party disclosure notes</b></p> <p>Our audit testing of the related parties disclosures included requesting data from the Oracle ledger to support the disclosures relating to your wholly owned subsidiary companies. You are notified of these figures by the companies with data from their own accounting ledgers. In this testing we found that although we were satisfied the amounts were materially correct, it was difficult to tie in the disclosed amounts due to timing differences and different accrual thresholds. As the level of income and expenditure for the wholly owned subsidiaries is key data inputting into your critical judgement in the accounts of non-consolidation of the subsidiaries this represents a risk that the data could be inaccurate and critical judgement made on the wrong information.</p>	<ul style="list-style-type: none"> <li>We recommend that you review your process for compiling this disclosure note and compile a more detailed analysis of wholly owned subsidiary income and expenditure on which to base this critical judgement.</li> </ul> <p><b>Management response</b> Agreed. Will be implement by 31 March 2018 and responsibility of Chief Accountant</p>

## Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Kent County Council's 2016/17 financial statements, which resulted in one recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1 ✓</p>	<ul style="list-style-type: none"> <li>Debtor and creditor balances should be regularly reviewed to ensure they represent genuine assets and liabilities.</li> </ul>	<p>The Chief Accountant oversaw a review of older debtor and creditor balances during the 2017-18 financial year to identify whether older debtor and creditor balances had an "owner" who could vouch for the reasoning behind the continued maintenance of the balance on the balance sheet. This identified that the issue was immaterial to the accounts. This will be a regular ongoing review with the aim to be that older unknown balances are written out of the accounts regularly when there is no longer a clear business rationale for the debtor or creditor.</p>

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

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

No adjusted misstatements have been identified at time of writing report.

## 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 omission	Detail	Auditor recommendations	Adjusted?
Disclosure only	Various	<ul style="list-style-type: none"> <li>We have agreed a number of other minor disclosure changes</li> </ul>	✓
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## Impact of unadjusted misstatements

No material misstatements requiring reporting to the Governance and Audit Committee have been identified. Throughout our testing we have identified several minor errors which have not been adjusted due to their trivial value.

# Fees

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

## Audit Fees

	Proposed fee	Final fee
Council Audit	£155,925	£155,925
<b>Total audit fees (excluding VAT)</b>	<b>£155,925</b>	<b>£155,925</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
• Resolution of objections to the 2015-16 statutory accounts (accrued for in the 16-17 accounts expenditure)	£29,218
• Resolution of objections to the 2016-17 statutory accounts (invoiced in late June)	£13,490
<b>Non-audit services</b>	
• Teachers Pensions Return certification work 2016-17	£4,378
• CFO Insights membership 2017-18	£10,000
	<b>£57,086</b>

# Audit opinion

We anticipate we will provide the Council with an unmodified audit report:

## Independent auditor's report to the members of Kent County Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Kent County Council (the 'Authority') for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014 (the 'Act'). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and related notes including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Corporate Director of Finance and Head of Finance Operations use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Corporate Director of Finance and Head of Finance Operations has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis

of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Interim Corporate Director of Finance and Head of Finance Operations is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 3 to 13 and 158 to 167, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

#### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Authority, the Interim Corporate Director of Finance and Head of Finance Operations and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 14, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Corporate Director of Finance and Head of Finance Operations. The Interim Corporate Director of Finance and Head of Finance Operations is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Interim Corporate Director of Finance and Head of Finance Operations determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Corporate Director of Finance and Head of Finance Operations is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Governance and Audit Committee is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### **Responsibilities of the Authority**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

We cannot formally conclude the audit and issue an audit certificate for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until

- (a) we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018; and
- (b) we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014.

We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

**[Signature]**

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square  
London  
EC2A 1AG

**[Date]**



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