Annual Audit Letter

Year ending 31 March 2018

Kent County Council and Kent Superannuation Fund 2017/18

24 August 2018

Contents

Your key Grant Thornton team members are:

Paul Dossett
Engagement lead
T: 020 7728 3180
E: paul.Dossett@uk.gt.com

Andy Conlan
Engagement Manager
T: 020 7728 2492
E: Andy.N.Conlan@uk.gt.com

Yawar Malik
Audit Executive
T: 020 7728 3388
E: Yawar.Malik@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Kent County Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance and Audit Committee, as those charged with governance, in our Audit Findings Report on 25 July 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £44,253,000, which is 2**%** of the Council's prior year audited gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 25 July 2018.
Whole of Government Accounts (WGA)	During August 2018 we have completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We are required under the Act to give electors the opportunity to raise questions about the Council's financial statements and we consider and decide upon objections received in relation to the accounts. We received no questions or objections from electors in relation to the 2017/18 financial statements. We are completing our work around an objection from an elector to the 2016/17 financial statements.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 25 July 2018.
Certificate	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.

Working with the Council

During the 2017/18 financial year we have:

- Worked closely with the officers in your Finance Team to complete an efficient audit for the earlier 31 July 2018 submission deadline. The majority of our detailed work was completed by early July, thereby releasing your finance team for other work.
- Sharing our insight – we provided regular committee updates covering best practice. We also shared our thought leadership reports
- Carried out detailed work in responding to the elector objections

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £44,253,000, which is 2**%** of the Council's prior year audited gross expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £2,213,000 above which we reported errors to the Governance and Audit Committee in our Audit Findings Report.

Superannuation Fund Materiality

For the audit of the Kent County Council Superannuation Fund accounts, we determined materiality to be £52,460,000, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Superannuation Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £2,623,000 above which we reported errors to the Governance and Audit Committee.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts, the Narrative Report and the Annual Governance Statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could 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 did not not consider this to be a significant risk for Kent County Council.	Our audit work did not identify any issues in respect of improper revenue recognition.
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.	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	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Accounts

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	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	Our audit work did not identify any issues in respect of the valuation of property, plant and equipment.
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.	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	Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.

Audit of the Accounts

Superannuation Fund - Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Kent Superannuation Fund, we determined that the risk of fraud arising from revenue recognition could 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 Superannuation Fund, mean that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for Kent Superannuation Fund.	Our audit work did not identify any issues in respect of improper revenue recognition.
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.	Our audit work included but was not restricted to: • gaining an understanding of the accounting estimates, judgements applied and decisions made by management and considering their reasonableness • obtaining a full listing of journal entries, identifying and testing unusual journal entries for appropriateness • evaluating the rationale for any changes in accounting policies or significant unusual transactions.	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Accounts

Superannuation Fund - Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
The valuation of Level 3 investments is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	Our audit work included but was not restricted to: • gaining an understanding of the Fund's process for valuing level 3 investments and evaluating the design of the associated controls • reviewing the nature and basis of estimated values and considering what assurance management has over the year end valuations provided for these types of investments • consideration of the competence, expertise and objectivity of any management experts used • reviewing the qualifications of the Fund Managers to value Level 3 investments at year end and gaining an understanding of how the valuation of these investments has been reached • for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We also reconciled those values to the values at 31 March 2018 with reference to known movements in the intervening period	Our audit work did not identify any issues in respect of the risk of incorrect valuation of Level 3 investments.

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 25 July 2018, complying with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Governance and Audit Committee on 25 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

During August 2018, we carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider on 24 August 2018.

Superannuation fund accounts

We gave an unqualified opinion on the superannuation fund accounts of Kent County Council on 25 July 2018.

We also reported the key issues from our audit of the superannuation fund accounts to the Council's Governance and Audit Committee on 25 July 2018.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

To date we have received no questions or objections from electors in relation to the 2017/18 financial statements. We are completing our work around an objection from an elector to the 2016/17 financial statements.

Certificate of closure of the audit

We are unable to certify that we have completed the 2016/17 and 2017/18 audit of the accounts of Kent County Council until we resolve all elector objections.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Medium Term Financial Sustainability The Council has a strong track record of delivering to your budgeted spend at the year end. The Council 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 the 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 the 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.	We looked in detail at the Council's revenue outturn performance for the year and the performance and operational reasons behind any variances against budget. We also carried out detailed work around the medium term budgeting for the 2018/19 and 2019/20 financial years. We analysed the 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. We discussed with management the challenging "budget gap" and what the plans were to address this, along with the detailed methods and assumptions behind the setting of key savings plans. We were satisfied that management have demonstrated that sound financial planning processes and robust financial control are in place. We also carried out a detailed analysis of the Council's reserves levels and other fiscal indicators as against other County Councils. 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 concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.**

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Ongoing planning and implementation of health and social care integration 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. The Council's central role in this transformation project means it continues to present one of the most significant risks for Value for Money. 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 the Council's plans for transformation of social services and integration with other services in the Kent Health Economy, and how the Council will monitor expenditure and outcomes in the new shared/collaborated services. .	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, showed that detailed plans are in place and your central role is well established. Initial financial modelling in the STP plans demonstrates 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. 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 the risk analysis above. We were 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. **On the basis of this work, we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place for securing value for money.**

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	24 April 2018
Audit Findings Report	25 July 2018
Annual Audit Letter	10 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	155,925	155,925	155,925
Statutory Pension Fund Audit	30,568	30,568	30,568
Total fees	**186,493**	**186,493**	**186,493**

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

Fees for non-audit services

Service	Fees £
Audit related services	
- 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
Non-Audit related services	
- Teachers Pensions Return certification work 2016-17	£4,378
- CFO Insights membership 2017-18	£10,000

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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