

# The Audit Findings for Kent County Council

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Year ended 31 March 2019

24 July 2019



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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 findings and other matters 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 2019 for those charged with governance.

<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Council and its income and expenditure 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 Annual Governance Statement (AGS), 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 / July. Our findings are summarised on pages 5 to 12. At this stage of our audit work we have identified 2 adjustments to the financial statements that have resulted in a £nil net adjustment to the Council's Comprehensive Income and Expenditure Statement. Following agreement with management that the classification of investments held in the draft accounts as 'fair value through other comprehensive income' should be amended to 'fair value through profit and loss', a number of amendments have been made to reclassify the investments and the valuation movements in year. These adjustments impact the Comprehensive Income and Expenditure Statement however due to the available statutory override these do not impact the General Fund. 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>Our work is substantially complete, subject to the following outstanding matters;</p> <ul style="list-style-type: none"><li>- Receipt of assurance from the Kent Pension Fund auditor;</li><li>- Completion of audit procedures in relation to:<ul style="list-style-type: none"><li>- Payroll (including related disclosures) – this work is in progress</li><li>- bank balances – this work is in progress</li><li>- Borrowings – receipt of third party confirmation for one balance</li><li>- Investments – receipt of third party confirmation for one balance</li><li>- Creditors – one outstanding sample request</li></ul></li><li>- receipt of management representation letter – see appendix F;</li><li>- Review of final financial statements;</li><li>- Review of the final Annual Governance Statement; and</li><li>- Completion of internal review process.</li></ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.</p>
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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

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## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

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.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 21.

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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
- To 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 await certification of the prior year accounts for 2016/17, on resolution of an elector objection in relation to the 2016/17 Financial Statements. We are unable to issue our completion certificate until this objection is resolved and the previous year of accounts is certified.

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

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

## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and

- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 24 April 2019.

## 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 24 July 2019, as detailed in Appendix E. These outstanding items are listed 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 remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Kent County Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	43,000,000	This has been calculated based upon 1.95% of your prior year gross expenditure
Performance materiality	32,250,000	This has been calculated as 75% of headline materiality, based upon our assessment of the likelihood of a material misstatement in the financial statements
Trivial matters	2,150,000	This has been calculated based upon 5% of headline materiality.

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### Improper revenue recognition

### Auditor commentary

This risk was rebutted in our Audit Plan and there have been no changes to this assessment

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. 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 consider management over-ride of controls, in particular journals, management estimates and transactions outside the normal course of business as a significant risk requiring special audit consideration.

### Auditor commentary

We have performed the following work:

- gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions

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

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3</b> <b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have completed the following work:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>• Evaluated the competence, expertise and objectivity of any management experts used.</li> <li>• Discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions.</li> <li>• Reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they are input correctly into the Authority's asset register</li> <li>• Evaluated 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</li> </ul> <p><b>Our audit work has not identified any issues in respect of the valuation of property, plant and equipment</b></p>
<p><b>4</b> <b>Valuation of pension fund net liability</b></p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have completed the following work:</p> <ul style="list-style-type: none"> <li>• Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement</li> <li>• Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• Undertook procedures to confirm the reasonableness of the actuarial assumptions made. We utilised an auditor's expert in order to gain this assurance; PWC as a consulting actuary;</li> <li>• Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary</li> </ul> <p>Additional work was required due to the impact of the McCloud judgement. During the year The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>Additional detail can be found on page 11.</p> <p><b>Our audit work is ongoing in this area and we are not yet able to conclude on this risk. We are waiting for assurances from the auditor of Kent Pension Fund.</b></p>

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

5

### Valuation, classification and ownership of investments

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters.

Investments held by the Authority are often complex and require judgment. Level 3 investments by their very nature require a particularly high degree of judgement, but there is risk to reach an appropriate valuation at year end for all the investments,

There is also the risk of investments being classified incorrectly due to the accounting requirements changing under the new IFRS 9.

### Auditor commentary

We have completed the following work:

- gained an understanding of the Authority's process for valuing investments and evaluate the design of the associated controls
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.
- considered of the competence, expertise and objectivity of any management experts used.
- reviewed the qualifications of the Fund Managers to value investments at year end and gain an understanding of how the valuation of these investments has been reached.
- assessed the Authority's policy undertaken in regard to the new accounting standard and ensure all investments are subsequently categorised correctly.

As part of our audit work we reviewed management's assessment of the classification of investments under the new standard (IFRS 9 Financial instruments). Prior to the audit the Council were in discussion with us on the treatment of these investments and they indicated that they were going to classify them as fair value through other comprehensive income (FVOCI) as advised by their treasury advisors. They also sought QC advice, which determined that the Council had treated the investments correctly. However, our internal assessment, based on our understanding of IFRS 9 and our understanding of the CIPFA Accounting Code, which has been adopted by local authorities in 2018/19, determined that this designation was not open to the Council for these types of investments and they should instead be classified as Fair Value through Profit and Loss (FVPL).

Following further discussions between ourselves and the Council, the Council agreed to amend to FVPL and the required adjustments were made to the accounts."

**Our audit work is ongoing in this area and we are not yet able to conclude on this risk. Outstanding work comprises the outstanding fund manager confirmation.**

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Land and Buildings – Other - £1,692m</b>	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Montagu Evans to complete the valuation of properties as at 31 March 2019 on a four yearly cyclical basis. The valuation of properties valued by the valuer has resulted in a net increase of £37m. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value.</p>	<ul style="list-style-type: none"> <li>We have assessed the Council's valuers, Montagu Evans and JLL, to be competent, capable and objective.</li> <li>We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report.</li> <li>The valuation method remains consistent with the prior year.</li> <li>We confirm consistency of the estimate against the report by the auditor's expert, Gerald Eve, and reasonableness of the increase in the estimate.</li> <li>We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts.</li> </ul>	 <b>Green</b>

## Assessment

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

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
<p><b>Net pension liability – £1,334m</b></p>	<p>The Council's total net pension liability at 31 March 2019 comprises £1,334m (PY £1,428m) in relation to the Local Government Pension Scheme as administered by Kent County Council.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>Our assessment of the estimate has considered:</p> <ul style="list-style-type: none"> <li>Assessment of management's expert</li> <li>Use of PWC as auditors expert to assess actuary and assumptions made by actuary. The assumptions employed by the actuary have been assessed as reasonable.</li> </ul> <table border="1" data-bbox="766 425 1781 1006"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.4%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.7%</td> <td>●</td> </tr> <tr> <td>Mortality assumptions – longevity at 65 for current male pensioners (years)</td> <td>22.0</td> <td>●</td> </tr> <tr> <td>Mortality assumptions – longevity at 65 for future male pensioners (years)</td> <td>23.7</td> <td>●</td> </tr> <tr> <td>Mortality assumptions – longevity at 65 for current female pensioners (years)</td> <td>24.0</td> <td>●</td> </tr> <tr> <td>Mortality assumptions – longevity at 65 for future female pensioners (years)</td> <td>25.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>Completeness and accuracy of the underlying information used to determine the estimate</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements</li> </ul>	Assumption	Actuary Value	Assessment	Discount rate	2.4%	●	Pension increase rate	2.4%	●	Salary growth	3.7%	●	Mortality assumptions – longevity at 65 for current male pensioners (years)	22.0	●	Mortality assumptions – longevity at 65 for future male pensioners (years)	23.7	●	Mortality assumptions – longevity at 65 for current female pensioners (years)	24.0	●	Mortality assumptions – longevity at 65 for future female pensioners (years)	25.8	●	<p>●</p>
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<p><b>Our work in this area is ongoing and we are not able to provided a conclusion at this time</b></p>																											

## Assessment

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

# Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
<p>1 Significant events or transactions that occurred during the year</p>	<p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £25m, and an increase in service costs for the 2019/20 year of £2.6m.</p> <p>Management's view is that the impact of the ruling is not material for Kent County Council, and will be considered for future years' actuarial valuations.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that a liability is probable, we have satisfied ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p>
<p>5 Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information</p>	<p>The new accounting standard, IFRS 9 Financial Instruments, was implemented from 1 April 2018. This required the Council to review the classifications and accounting treatment of its investments.</p> <p>The Council used its external advisor to provide support during this process.</p> <p>The review has resulted in the classification of pooled investment funds under IFRS 9 as 'fair value through other comprehensive income'.</p> <p>In our opinion IFRS 9 does not permit for these type of investments to be designated under this classification.</p>	<p><b>Auditor view</b></p> <ul style="list-style-type: none"> <li>Following an internal review by our technical team and discussions with management and their investment advisors, it was agreed that the initial classification would be amended to FVPL and the required adjustments made to the accounts. These adjustments impact the Comprehensive Income and Expenditure Statement however due to the available statutory override these do not impact the General Fund.</li> </ul>

# Significant findings - Going concern

## Our responsibility

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

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## Going concern commentary

### Management's assessment process

The Council's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

### Auditor commentary

- As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).
- We have subjected the 2019/20 budget and high level revenue MTFP to 2020/21 to detailed scrutiny, and reviewed the planned savings proposals for 2019/20 and 2020/21 in our consideration of the appropriateness of management's use of the going concern assumption.
- In 2019/20 the Council has presented a balanced revenue budget however this is based on achieving savings of £35m. The Council has identified the key risks to achieving this level of saving. However, the Council's reserves position is strong and financially with total reserves of £385,511k.

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## Concluding comments

### Auditor commentary

- Based on the audit work performed, we are satisfied that no additional disclosures relating to going concern are required within the Accounts.

# 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>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2 <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
3 <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4 <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is appended</li> <li>Specific representations have been requested from management in respect of the following:               <ul style="list-style-type: none"> <li>– McCloud judgement</li> </ul> </li> </ul>
5 <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to investment fund managers and the Council's banks and institutions they have borrowings from. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however 2 requests are currently outstanding.</li> </ul>
6 <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements although we have suggested enhancements to the disclosure of financial instruments.</li> </ul>
7 <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

# Other responsibilities under the Code

Issue	Commentary
<b>1 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 Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
<b>2 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 however we have yet to review the final Annual Governance Statement</p>
<b>3 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>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> <li>Note that work is not yet completed and the planned timescale for the work is for completion in August 2019</li> </ul>
<b>4 Certification of the closure of the audit</b>	<p>We are unable to certify the closure of the 2018/19 audit of Kent County Council in the audit opinion, as detailed in Appendix E.</p> <p>We await certification of the prior year accounts for 2016/17, on resolution of an elector objection in relation to the 2016/17 Financial Statements. We are unable to issue our completion certificate until this objection is resolved and the previous year of accounts is certified</p>

# Value for Money

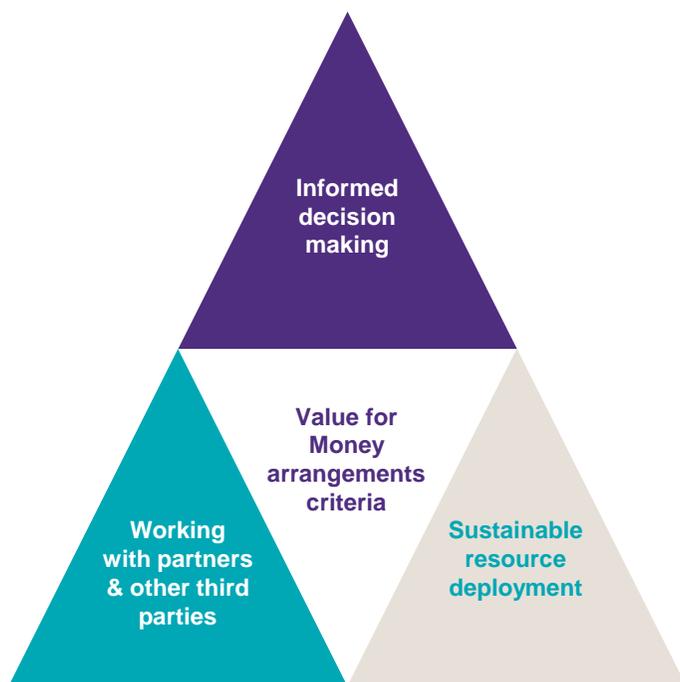
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 April 2019 and identified a number 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 April 2019.

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.

# Value for Money

## **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:

- The Council's 2018/19 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Plan, including savings and income proposals;
- The Council's response to Brexit; and
- The governance structure in place to monitor the subsidiary companies.

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 17 to 21.

## **Overall conclusion**

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness 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 and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p><b>1 Overall Financial Position – Medium Term Financial Plan</b></p> <p>You have a strong track record of delivering to your budgeted spend at the year end. However as reported at Month 8 you were anticipating a outturn deficit pressure of £1.9m for the year. There is a requirement for a considerable level of savings of the life of the Medium Term Financial Plan (MTFP).</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>Review the assumptions behind the latest MTFP</li> <li>Review savings plans and revenue generating schemes.</li> <li>Discuss your plans and outcomes with management, as well as reviewing how finances are reported to Councillors</li> </ul>	<p><b><u>Revenue outturn for 2018/19</u></b></p> <p>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.</p> <p>The Council has had a challenging year but has been able to deliver a provisional revenue budget underspend of £7.326m (excluding schools and before roll forwards to future years). This compares to a projected underspend reported to the cabinet in March 2018 of £0.015m based on data for the financial year to the end of January 2019. This represents good financial performance in the context of the reduction in central government funding in 2018/19, the need to make significant work stream savings, and increasing pressure on asylum services, health and social care and school places.</p> <p>At a directorate level there was an overspend across Children, Young People and Education of £0.810m which was off set by underspends in the other directorates. The largest underspend, of £4.661m, was in the Financing items directorate. The key areas of pressure in Children, Young People and Education are due to a reduction in general services income and additional asylum costs. Within children’s Social Care there has been increasing demand on the budget due to the need to use more expensive agency workers.</p> <p>You expect to receive additional funding from the Home Office to compensate for the increase pressure on Young People’s Asylum Services but this is still under discussion. This area still experienced an overspend of £0.6m.</p> <p><b><u>Budget for 2019/20 and 2020/21</u></b></p> <p>The Council has set balanced budget for 2019/20, which includes the need to identify circa £45m of income generation and savings in the year. In the 2019/20 year you faced the following immediate challenges:</p> <ul style="list-style-type: none"> <li>- A net reduction in government grants primarily due to the continued phased reduction in the Revenue Support Grant</li> <li>- Increased spending demands of £72m driven by changes in demography/increasing demand, inflation of pay and prices, replacement of one-off items in 2018-19 and other budget realignments.</li> </ul> <p>We have analysed your detailed breakdown of the reductions in income and increased expenditure budgeted for 2019/20. We discussed the key items with management and looked at the assumptions behind these and concluded that they were realistically and prudently estimated but remain challenging.</p>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1	Significant risk	Findings
	<b>Overall Financial Position – Medium Term Financial Plan (continued)</b>	<p>This leaves a challenging “budget gap”. Your approved plan to address this challenge in the 2019/20 budget is as follows:</p> <ul style="list-style-type: none"> <li>- Increase in Council tax and Business rates. For 2019/20 the council tax increase referendum threshold remains at 3%, and you have decided to increase this taxation by the maximum legally permitted level of 2.99% plus the 2% for the social care levy. 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 £41.3m.</li> <li>- The remaining gap of will primarily be addressed by making savings and efficiencies in services and back office functions of the Council. £19.1m of these are in financing savings which will not affect services. A further £3.9m of savings will be made in contacts and procurement, £3m in policy savings and £2.4m in staff costs. You plan to generate £3.3m of additional income and this leaves a relatively modest £5.3m of savings to be made through service transformation programmes.</li> </ul> <p>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 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.</p> <p>We discussed and reviewed 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 2019/20.</p> <p>We are satisfied that management have demonstrated that sound financial planning processes and robust financial controls are in place.</p>

## Key findings (continued)

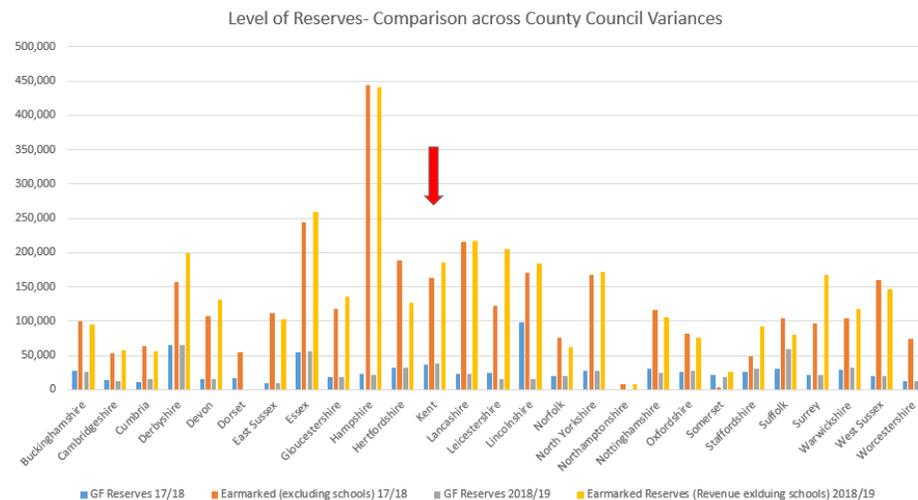
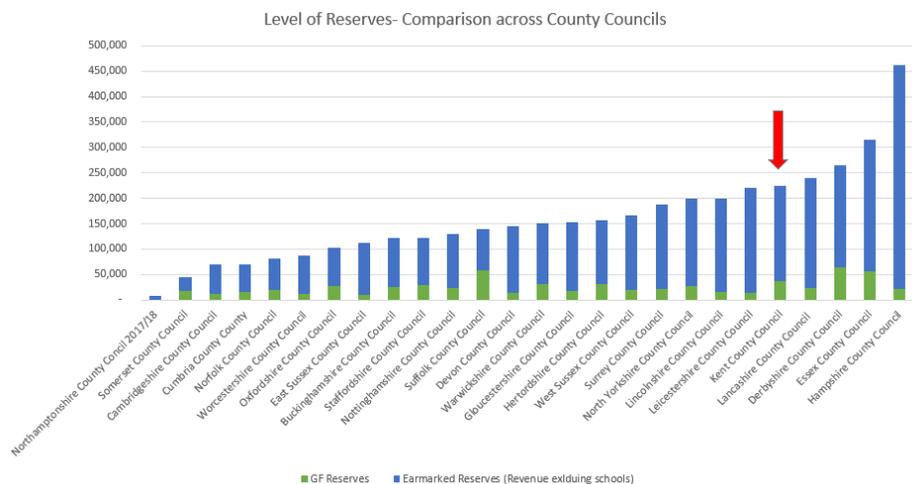
### Significant risk Findings

1

#### Overall Financial Position – Medium Term Financial Plan (continued)

#### Fiscal Indicators and reserves levels

We have compared the level of useable reserves in the Council's draft 2018/19 accounts to those reported in the draft accounts of other County Councils. This shows that for the level of total usable reserves Kent County Council is 5 out of the 26 compared.



When we compare the movement in reserves from prior year we can see that the variance from year to year is minimal

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

The Council's reserves level provides it 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. It has been noted that the deficit on the Dedicated Schools Grant (DSG) return has increased to £6.5m in 2018-19 and the Council has to monitor this and develop a plan to reduce the deficit. 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.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p><b>1 Overall Financial Position – Medium Term Financial Plan (continued)</b></p>	
<p><b>Auditor view</b></p>	<p>On the basis of this work, we have concluded that the risk was sufficiently mitigated.</p>
<p><b>Management response</b></p>	<ul style="list-style-type: none"> <li>• Management continue to monitor and review the situation to mitigate risks.</li> </ul>
<p><b>2 Brexit</b></p> <p>With the UK due to leave the European Union on 29 March 2019, there will be national and local implications resulting from Brexit that will impact on the Authority and which it will need to plan for.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"> <li>• Review your arrangements and plans to mitigate any risks on Brexit. Our review will focus on areas such as workforce planning, supply chain analysis, regulatory impact and impacts on finances including investments.</li> </ul>	<p>At the time of writing our audit plan, the UK was due to exit from the EU on 29 March 2019. this was delayed and Brexit is now expected to happen on a revised date of 31 October 2019. Therefore the expected risk related to the impact of Brexit has not materialised within the period covered by this report. However we have considered the level of preparedness and planning undertaken by the Council.</p> <p>The Council is part of the Kent Resilience Forum and work undertaken to assess the risk and prepare for Brexit have included work undertaken with in the Council as part of a multi agency approach. The overall approach has involved considering the risk from a no-deal scenario and the areas which it would impact;</p> <ul style="list-style-type: none"> <li>• The internal resilience groups within Directorates meeting regularly to consider Brexit risks and responses</li> <li>• Co-ordination of the approach and risk assessment across the county through the Kent Resilience Forum. Through this body the Council has participated in exercises to test plans related to identified risks such as transport</li> <li>• Brexit briefings have been provided to the Council in order keep members informed of progress Through this body the Council</li> <li>• The business continuity plans across the Council have been reviewed and updated to ensure they consider the potential impact of Brexit</li> <li>• The regulatory impact has been considered by the Council's legal team</li> <li>• The Council's website also provides helpful links to where residents and businesses can get the most up to date advice including government's official source for a wide-range of information for residents and businesses about the UK leaving the EU.</li> </ul>
<p><b>Auditor view</b></p>	<p>On the basis of this work, we have concluded that the risk was sufficiently mitigated based on the information the Council has had in order to prepare for the impact of Brexit at this time.</p>
<p><b>Management response</b></p>	<ul style="list-style-type: none"> <li>• We continue to watch the situation carefully and have the appropriate plans in place to be able to deal with situations as they arise.</li> </ul>

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings
<p><b>3 Subsidiaries</b></p> <p>Kent County Council has a number of subsidiaries, including 2 new companies set up in 2018/19. With an increasing level of functions being performed by these bodies, the risk of financial commitments and ongoing support increases if they are not able to generate income to become self sufficient.</p> <p>In response to this risk we will:</p> <ul style="list-style-type: none"><li>• Review your arrangements to monitor the activities of the subsidiaries</li></ul>	<p>We discussed the governance arrangements with a member of your finance team and reviewed minutes and a sample of papers for the Shareholder Boards for the wholly owned subsidiaries.</p> <p>We noted that monitoring of subsidiaries takes place at a number of levels both at the operational level with oversight and engagement from your finance department, involving regular formal meetings and informal 'catch ups' at a frequency dependent on the level of support needed, and at senior management level at the Shareholder Boards.</p> <p>The Shareholder Boards meet throughout the year and receive updates from the subsidiary's senior management covering key events and pipelines. The Board also received financial performance information and the annual budget.</p> <p>We noted that due to the proposed change in governance structure and the creation of a HoldCo the current governance arrangements will be changed in the near future. Our review was designed to consider the overall governance framework and not to consider the actual performance of the companies. The current framework as set up, provides a platform for the Council to monitor the activities of its subsidiaries.</p>
<hr/> <p><b>Auditor view</b></p> <p>On the basis of this work, we have concluded that the risk was sufficiently mitigated.</p>	
<p><b>Management response</b></p> <ul style="list-style-type: none"><li>• We work closely with each of the companies and with Holdco to monitor the activities of each.</li></ul> <hr/>	

# Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## 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 non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Non- audit related</b>			
Teachers Pensions Return Certification work	4,750	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 £120,062 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.
RGF grant certification	2,500	Self-interest Self-review	
CFO Insights	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 £10,000 in comparison to the total fee for the audit of £120,062 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 means 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 person the CFOi team acts independently of the audit team. These factors all mitigate the perceived self-interest threat to an acceptable level.

# Action plan

We have identified no recommendations for the Council as a result of issues identified during the course of our audit. We will review and update this as necessary once our audit work is complete.

## 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 2017/18 financial statements, which resulted in 2 recommendations being reported in our 2017/18 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<p>✓ <b>Review of externally supplied information disclosed in the Officer 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 issue with data which was externally supplied by schools leading to a risk that the disclosure would be incorrect particularly where this external data was not subject to sufficient review for accuracy. In 2017/18, the disclosure was amended as a result of the work we completed.</p> <p>We recommended that externally supplied data was subjected to some review and spot checking back to support. We also recommended that the instructions issued to external accountants were clarified to ensure accuracy of the information they provide.</p>	<p><b>Management response</b></p> <ul style="list-style-type: none"> <li>We improved the guidance provided to the schools clarifying the salary information they are required to provide.</li> </ul>
2	<p>X <b>Review of externally supplied information disclosed in the related Party disclosure notes</b></p> <p>Our audit testing of the related parties disclosure 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.</p> <p>We recommended that you review your process for compiling this disclosure note and compile a more detailed analysis of wholly owned subsidiary income and expenditure.</p>	<ul style="list-style-type: none"> <li>During testing of this disclosure in the 2018/19 financial statements we have noted that the method for populating the disclosure has remain the same as the prior year.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>We will work more closely with the subsidiaries to improve the information included in the disclosure.</li> </ul>

## 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 ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on Total Comprehensive Income and Expenditure £'000
1			• No impact
Reclassification of creditor from current to non-current			
Dr Current General Creditors		5,285	
Cr Non-current Creditors		(5,285)	
2			• No impact
Adjustment to reclassify investments held at fair value through other comprehensive income (FVOCI) in the first version of the draft accounts to fair value through profit and loss (FVPL)			
Dr Financing and investment income and expenditure	1,792		
Cr (Surplus) / deficit from investments in equity instruments designated at FV through other comprehensive income	(1,792)		
Dr Investments classified at FVPL		149,768	
CR Investments classified at FVOCI		(149,768)	
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	

## 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?
<b>Non-audit service fees</b>	<ul style="list-style-type: none"> <li>The disclosure initially omitted the fees for non-audit services paid to the auditor in year</li> </ul>	<ul style="list-style-type: none"> <li>Additional fees of £12k should be included in the disclosure</li> </ul>	✓
<b>Cashflow statement</b>	<ul style="list-style-type: none"> <li>The disclosure of the movement on investment properties and REFCUS were on the incorrect lines</li> </ul>	<ul style="list-style-type: none"> <li>The values should be swapped so they are allocated to the correct disclosure line</li> </ul>	✓
<b>Financial instrument</b>	<ul style="list-style-type: none"> <li>Amendments to reflect the change in classification of the investments initially held at FVOCI and reclassified to FVPL</li> </ul>	<ul style="list-style-type: none"> <li>See page 11 for further details</li> </ul>	✓

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 The transfer between assets under construction and other categories of tangible assets have been disclosure as additions and should be transfers or reclassifications. This impacts the Property, plant and equipment note only			• No impact	• Disclosure adjustment only with no impact on the primary statements or underlying balances
Dr disclosure of transfers / reclassification		25,189		
Cr disclosure of additions		(25,189)		
2 The creditors balance includes debit amounts			• No impact	• Disclosure adjustment only with no impact on the primary statements or underlying balances
Dr Debtors		15,596		
Cr Creditors		(15,596)		
3 The debtors balance includes debit amounts			• No impact	• Disclosure adjustment only with no impact on the primary statements or underlying balances
Dr Creditors		4,530		
Cr Debtors		(4,530)		
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>		

# 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	120,062	120,062.
Additional fees in relation to additional work required for the following issues in 2018-19:		To be determined
- McCloud judgement		
- IFRS Financial Instruments classification		
<b>Total audit fees (excluding VAT)</b>	<b>£120,062</b>	<b>To be determined</b>

- The proposed fees for the year were set in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)
- The fees reconcile to the financial statements.

## Non Audit Fees

In addition to those listed below which have been billed in 2018/19, we have performed work for the Teachers Pension return certification work.

Fees for other services	Fees £
<b>Audit related services:</b>	
• RGF grant certification	2,500
<b>Non-audit services</b>	
• CFO Insights membership 2018-19	10,000
	<b>£12,500</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 2019, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements and Policies and Judgements. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; 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.

#### 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 Head of Finance Operations (Acting Deputy s151)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance Operations (Acting Deputy s151) 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 Head of Finance Operations (Acting Deputy s151) is responsible for the other information. The other information comprises the information included in the Statement of Accounts, set out on pages 3 to 15 and 170 to 180 (the Narrative Report and the Annual Governance Statement) 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 audit 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

# Audit opinion

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, (the Narrative Report and the Annual Governance Statement) 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

## Responsibilities of the Authority, the Head of Finance Operations (Acting Deputy s151) 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 16, 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 Head of Finance Operations (Acting Deputy s151). The Head of Finance Operations (Acting Deputy s151) 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Head of Finance Operations (Acting Deputy s151) 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 Head of Finance Operations (Acting Deputy s151) 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 there is an intention by government that the services provided by the Authority will no longer be provided. The Governance and Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

# Audit opinion

## 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 2019.

### 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 2019.

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.

# Audit opinion

## Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until 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 2019. We are satisfied that this work does 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 2019.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2019 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention in 2016/17 by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does 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 2019.

### Use of our report

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.

Paul Dossett, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

# Management Letter of Representation

[\*\*Prepare on client letterhead\*\*]

Our ref:  
Your ref: KCC201819

Grant Thornton UK LLP  
110 Bishopsgate  
LONDON  
EC2N 4AY

Xx July 2019

Dear Sirs

## Kent County Council Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Kent County Council for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vi. Except as disclosed in the financial statements:
  - a. there are no unrecorded liabilities, actual or contingent
  - b. none of the assets of the Council has been assigned, pledged or mortgaged
  - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

# Management Letter of Representation

- xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end
- xii. The financial statements are free of material misstatements, including omissions.
- xiii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
- xvi. In respect to the McCloud judgement, we have obtained an impact assessment from our actuary and have included the impact as an additional disclosure in the financial statements.

## Information Provided

- xvii. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.

- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

## Annual Governance Statement

- xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

# Management Letter of Representation

## Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

## Approval

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on [ENTER DATE].

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of Kent County Council**



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