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Date: 9 March 2023

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 16 MARCH 2023

I am now able to enclose, for consideration at next Thursday, 16 March 2023 meeting of the Governance and Audit Committee, the following reports that were unavailable when the agenda was printed.

Agenda Item No

5	**External Audit Findings Report 2021-22 (Pages 1 - 52)**
6	**External Audit Annual Report for 2021-22 (Pages 53 - 92)**

Yours sincerely

Benjamin Watts
General Counsel

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The Audit Findings for Kent County Council

Year ended 31 March 2022

March 2023

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Agenda Item 5

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on the 28 February 2023

Name : Paul Dossett
For Grant Thornton UK LLP
Date : 28 February 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during October 2022 to February 2023. As communicated in our Audit Plan, we agreed with management to start our audit field work in October 2022. This is 3 months later than when we have historically started (June). The reason for starting in October was because as a firm, Grant Thornton made a national decision to prioritise addressing the backlog in Local Government opinions before starting 2021-22 opinions. The impact of starting 3 months later isn't just that everything is pushed 3 months to the right. It is more challenging for your finance team to service the audit during this period because it then takes place at the same time as other key priorities i.e., budget setting and preparation for the 2022-23 financial statements.

Your finance team have engaged well with us during this period and we have had to be flexible on both sides to overcome a series of challenges, not least the issue around infrastructure assets. The Council's single entity draft financial statements alongside a full suite of working papers were submitted for audit in line with our agreed timetables. As in previous years, the quality of the financial statements and supporting working papers continues to be high. This is in contrast to what we see in other parts of the country where the quality of financial reporting continues to decline. Members should both recognise the quality of the financial statements produced by officers and ensure that appropriate succession plans are put in place if these high standards are to be maintained. Response times to our queries were generally good, although in some areas, particularly where information was being sought from officers or stakeholders outside of finance there were some delays. One example was obtaining external confirmations from your financial institutions on investments held as at the balance sheet date.

Our findings are summarised on pages 6 to 28. We have identified 1 adjustment to the financial statements that has resulted in a £24.9m gain in the CIES prior year figures. The adjustment arises following our review of the prior period restatement set out in the draft financial statements. Our review identified that that there was a further £24.9m of accumulated depreciation relating to infrastructure land that had been incorrectly depreciated in prior years. Management have corrected for this by reversing accumulated depreciation which gives rise to the gain in the CIES. It is important to note however that this gain has no impact on the General Fund because the gain is moved to the unusable reserve 'Capital Adjustment Account' as required by the statute. In other words, the gain doesn't impact decisions the Council will make regarding Council tax or generally around financial sustainability. For more information see Appendix C for the adjustment and page 13 for additional narrative.

We have also identified several misstatements which management have decided not to adjust for. Individual and in aggregate these misstatements are not material to the financial statements. The net impact of these misstatements are £18.6m and details of these can be found in Appendix C.

Two issues arose during the audit which we feel is important to give prominence to. The first issue pertains to a multi-million pound Inland Border Facility being built by KCC in Sevington which is funded by Central Government. Our audit work in this area uncovered that the control environment put in place by KCC for this project was different to that of other KCC projects. Key elements of assurance that we would expect on a project of this size i.e. an independent quantity surveyor signing off stages of completion could not be made available to us during the audit. Whilst we obtained sufficient appropriate evidence that the financial statements are free from material misstatement, we have identified a high priority control recommendation. The control recommendation is set out in Appendix A and further details on the issue are set out on page 15. Funding received from third parties to support expenditure undertaken by KCC should never be a reason for a reduction on the control environment.

The second relates to an issue we raised in the prior year audit around a £4m invoice to the NHS. We followed up on this issue during the year to determine whether the risk of it being credit noted crystalised. On 29 March 2022, a £1.5m credit note was issued against this invoice with the residual £2.5m was recognised as revenue. Whilst we are satisfied that there is no misstatement in the financial statements, we feel it is important to present the facts to you as 'Those Charged with Governance' (TCWG) as it pertains to a control weakness. Further details on this issue is set out on pages 16 and 17.

Continued overleaf…

1. Headlines - continued

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group
- the group and Council's financial statements give a true and fair view of income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Recommendations for management as a result of our audit work are set out in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- completion of our audit work on PPE valuations
- completion of responses to our firm's technical review of your accounts. This review is in line with our firm's risk management procedures to perform a technical review on Local Authority financial statements once every three years;
- reviewing the formal response we have received from management in respect of an objection on the financial statements
- final internal senior management and quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix F to this report. We expect to present our auditor's annual report to the Governance ad Audit Committee on March 16th 2023 and finalise by the end of March.This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date, we have identified 5 risks of significant weakness as explained below.

1. Risk of significant weakness around the arrangements to control spending
2. Risk of significant weakness around the arrangements to ensure financial sustainability of Special Education Needs and Disability (SEND) services. This is a risk of significant weakness that was first identified and communicated in our 2020-21 VfM work.
3. Risk of significant weakness around the arrangements for decision making which links to the issues raised by your Monitoring Officer in the most recent AGS, in particular, the one around members and officers 'staying in their lane'.
4. Risk of significant weakness around the arrangements to respond to the findings of Ofsted and CQC around the provision of KCC's SEND services. This is separate to the risk described in (2) as this is around operational performance rather than financial sustainability.
5. Risk of significant weakness around the arrangements for procurement. This links to issues identified by your internal auditors on SEND transport services and some of the underlying weakness in arrangements or compliance to those arrangements.

Our work on VfM, including our work on the five risks set out above is nearing completion. A draft report has been shared with management and we are now in the process of finalising the report..

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements and work on Whole of Government Accounts (WGA). We expect to complete our VfM work by the end of March 2023 and work on WGA by the end of May.

We will also need to complete any work in relation to the objection on the accounts – we are first waiting on a response from management on this as set out on page 4.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be discussed with the Governance and Audit Committee on the 28 February 2023.

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for operating expenditure of Commercial Services Kent Ltd was required, which was completed by Bishop Fleming.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries set out on page 4 being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 28 February 2023.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our Audit Plan, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as video meetings to conduct all progress meetings and to go through audit queries/evidence, verifying the completeness and accuracy of information provided remotely produced by the Council, and provision of all audit evidence through the Inflo system. Whilst challenging we were able to draw on and apply learning from last year's audit.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

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In our Audit Plan communicated in July 2022, we set materiality at 1.5% of the prior year gross revenue expenditure plus interest payable in the prior year audited accounts (£2,771m).

In the 2021/22 draft accounts, gross revenue expenditure increased to £2,879m. As expenditure only increased marginally, we took the judgement to keep materiality levels the same as those we set at the Audit Plan.

Group materiality has also been kept the same as what we communicated in our Audit Plan at £41,500,000.

Council	[redacted]		
	Planning (£)	**Final (£)**	**Qualitative factors considered**
Materiality for the financial statements	41,000,000	41,000,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective to provide services to the local community, therefore gross expenditure was deemed the most appropriate benchmark. This benchmark was used in the prior year also. We considered 1.5% to be an appropriate rate to apply to the gross expenditure benchmark.
Performance materiality	30,750,000	30,750,000	The Council does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	2,100,000	2,100,000	The threshold above which we are required to report errors or uncertainties to those charged with governance, calculated as 5% of materiality.
Materiality for senior officers' remuneration	100,000	100,000	Senior officer remuneration is an area of interest to readers of financial statements. A lower level of materiality in these areas is appropriate due to the nature of these disclosure notes.

Group	[redacted]		
	Planning (£)	**Final (£)**	**Qualitative factors considered**
Materiality for the financial statements	41,500,000	41,500,000	Same as above
Performance materiality	31,125,000	31,125,000	Same as above
Trivial matters	2,075,000	2,075,000	Same as above
Materiality for senior officers' remuneration and related parties	100,000	100,000	Same as above

2. Financial Statements - Significant risks

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

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and group	We have: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determined the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Control finding:** The journal control environment for KCC does not include a system of approval or authorisation. What this means is that anybody who has been granted access to the ledger system is able to prepare and post a journal without it being reviewed or authorised by another person. Whilst we are satisfied that access to the ledger is restricted to appropriate people, we have identified the lack of journal authorisation as a deficiency in the design of the control environment. KCC is not an outlier as other Authorities have similar arrangements. Nonetheless, best practice would be for all journals to go through a review and approval process, ideally automated through a workflow. It is important to note that this is not a new issue - the journal control environment is unchanged from prior years. The existence of this journal control deficiecy has not prevented us from obtaining the assurances we need over the ISA 240 risk. We have discussed the matter with management who are satisfied that there are sufficient mitigating controls and that they are comfortable with the level of residual risk. As required by the ISA's and to ensure transparency, we are communicating this control deficiency to ensure all concerned are aware of the issue. The control issue and recommendation is set out in Appendix A. **Conclusion:** Our work has not identified any material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. (rebutted)	Council and Group	Having considered the risk factors set out in ISA240 and the nature of the Council and the Group's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including that of Kent County Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Kent County Council or the Group NB: Although we have rebutted this risk, we have still performed substantive work on all relevant assertions of revenue where those revenue streams are material to the financial statements.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings (Rolling revaluation) The Authority revalues its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. On 3 February 2022 CIPFA LASAAC launched a consultation on proposals for an update of the 2021/22 Code relating to the approach to measurement of operational property, plant and equipment. This consultation has now closed and CIPFA have confirmed no changes to the Code in respect of the valuation of PPE.	Council and Group	We have • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Assessed the value of a sample of assets held at Depreciated Replacement value – testing provided assurance on the reasonableness of key assumptions used by your valuer including the build cost, obsolesce rate and floor areas. • Reviewed assets not revalued to obtain assurance there is no material difference between the carrying value and current value of those assets as at the balance sheet date. Conclusion: Subject to the completion of the outstanding work set out on page 4, our work has not identified any material issues in relation to this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the pension fund net liability (£1,559 million) The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£1,559 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	Council and Group	We have: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • We have also conducted work to satisfy ourselves that the movement within the IAS 19 report described as 'experience' is reasonable and appropriate Conclusion: Our work has not identified any material issues in relation to this risk.

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2. Financial Statements – Other risks identified

'Other risks' are risks to the financial statements which we have assessed as not being significant under ISAs. In our Audit Plan we communicated that we planned to carry out certain procedures in relation to two 'other risks'. See below details of the results of these planned procedures and conclusions obtained.

Risks identified in our Audit Plan	Risk relates to	Commentary
Testing on expenditure Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where an entity is required to meet financial targets. Having considered the risk factors relevant to Kent County Council and the Group and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 9 relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests below and our testing in relation to the significant risk of Management Override of Controls as set out on page 8.	Council and Group	We have: • Performed testing over post year end transactions to assess completeness of expenditure recognition. • Tested a sample of operating expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year. **Results:** As part of our sample testing around the completeness of expenditure, we identified four payments made post year end that related to activity in 2021/22 and therefore should have been accrued. The total misstatement identified was £345k. To evaluate the impact of this error, we extrapolated the error rate in our sample over the population being tested. The extrapolated error was £7,034k. On that basis, we are satisfied that there is not a material misstatement in the accounts. As the extrapolated error exceeds triviality we have reported it to you as an unadjusted misstatement – see Appendix C. **Conclusion:** Our work has not identified any material issues in relation to this risk.

2. Financial Statements – Other risks identified

Risks identified in our Audit Plan	Risk relates to	Commentary
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note Infrastructure assets includes roads, highways, streetlighting and coastal assets. Each year the Council spends circa £80m on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £634m which is over 15 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. **Development during 2021/22:** As we reported in our November 2022 progress report, an issue relating to the reporting of infrastructure assets has led to delays in local authority audits, principally for highways authorities. The issue is a technical accounting one and arises principally because of information availability relating to these assets. This is a material issue which impacts Kent County Council as the Council reports to hold over £600m of infrastructure assets as at 31 March 2021. In November 2022, an amendment to the Local Authority Capital and Finance regulations was laid before Parliament. This amendment allowed Local Authorities when derecognising components of infrastructure assets to determine the relevant amount as nil. This, combined with a CIPFA Code update to remove the requirement to report the gross book value of infrastructure assets enables KCC, and other Highways Authorities, to produce materially accurate and compliant accounts. The amendment to the regulation came into effect on 25 December 2022 and management have updated the accounts to ensure that the financial statements comply. For the avoidance of any doubt, we **have not** assessed the risk on infrastructure assets to be significant	Council and Group	**Prior period adjustment on infrastructure assets:** The initial draft financial statements included a £140m prior period adjustment (PPA) on infrastructure assets. The impact of the adjustment is that PPE increased by £140m with the other side of the transaction going to the Capital Adjustment Account which is an unusable reserve. The PPA arose because depreciation had been overcharged on infrastructure assets for several years which accumulated to a material error. Under IAS 8, material prior period errors should be amended. **Audit response:** We have performed the following: • reviewed management's judgements and rationale • considered whether the PPA is limited to just infrastructure assets • consulted internally with our firm's central technical team **Findings and conclusion:** As part of our review we were satisfised with management's assessment and calculations of the error. We did however identify that a further £24.9m of depreciation had historically been charged in error as it related to Land. Management have therefore adjusted their prior period adjustment by a further £24.9m. This adjustment has no impact on useable reserves. This adjustment is captured in Appendix C. **Review of useful economic lives:** For 2021/22, management updated their accounting estimate in respect of the useful economic lives applied to infrastructure assets. Prior to 2021/22, management had depreciated all infrastructure assets over 20 years. For 2021/22, management carried out an exercise to disaggregate infrastructure assets into different components and obtain evidence from the service as to how long each component lasts. We have reviewed management's work and we are satisfied that the updated useful economic lives for each asset class is reasonable. CIPFA also released guidance on the UELs for infrastructure assets. We have reviewed this against management's updated UELs and concluded that they are consistent. The change in UELs is made prospectively as it is a change in accounting estimate. **Revised disclosure in light of new requirements:** We have also reviewed the revised disclosures on infrastructure assets as required by the updates to the LG Code and the statutory instrument. We are satisfied that the new presentation in the financial statements is appropriate and compliant with the requirements. This adjustment is again captured in the disclosure amendments set out in Appendix C.

2. Financial Statements – Key findings arising from the group audit

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The table below sets out the results of our work against the risks set out in the Audit Plan.

Component	Individually Significant?	Risks identified	Planned audit approach	Findings and conclusions
Kent County Council	Yes	We have detailed the significant risks for the audit of this entity on pages 8 to 11	Full scope audit performed by Grant Thornton UK LLP	Our findings are set out in this report and based on the work to date, we plan to issue an unmodified opinion in respect of the single entity financial statements
Commercial Services Kent Ltd	No	None	Audit of expenditure, carried out by the component auditor, which has then been reviewed by the group audit team.	None
Kent Holdco Ltd, EDSCO Ltd, Kent County Trading Ltd, Cantium Business Solutions Ltd, Gen 2 Property Ltd, Invicta Law LtD, Kent Top Tempts Ltd, Commercial Services Trading Ltd	No	None	Analytical reviews performed by Grant Thornton UK LLP.	None
Group consolidation	N/A	None	• To document our understanding of the consolidation process • To review and test (where appropriate) intercompany eliminations • To ensure intercompany eliminations are complete • Perform an analytical review at the group level as part of our risk assessment process	We identified presentation misstatements pertaining to the intercompany eliminations. These are misclassifications only and do not impact the net reported position of the Group. These are set out in Appendix C – disclosure issues.

2. Financial Statements – Key issues discussed with management

Inland Border Facility at Sevington

Background:

In planning for border checks post-Brexit, the Government submitted a proposal for an Inland Border Facility (IBF) in Ashford (Sevington) that was approved by the Ministry for Housing, Communities and Local Government (MHCLG) in December 2020. The decision notice extended the use of the land at Sevington to be used by several different government departments including the DfT, HMRC and DEFRA. Despite this being a central government capital project, the government approached Kent County Council to procure contractors to construct the multi-million pound structure. We have been informed that the cost of Sevington is funded by government.

The site has been in use by the Department for Transport (DfT) as an Inland Border Facility since 4 January 2021. In February 2022, the DfT submitted updated proposals for Sevington Inland Border Facility to meet new operational requirements for the site. The capital work associated with this was also procured by Kent County Council. We understand the most recent forecast of the total capital costs associated with the Sevington project is circa £70m.

In Kent County Council's financial statements, capital spend on the Sevington project is reported as Revenue Expenditure Funded From Capital Under Statute (REFCUS). REFCUS includes expenditure that has been treated as capital expenditure but does not lead to the acquisition by the Council of a tangible asset. In the case of Sevington, this is appropriate because KCC doesn't own the land nor does it have the right of use for the building. This is why the capital cost of Sevington isn't held on the balance sheet as an item of PPE.

Issue identified:

As part of our sample testing of REFCUS, we identified several large transactions pertaining to Sevington. As with all major capital projects, we requested for management to provide us with the supplier invoice to substantiate the capital spend. In addition, we also requested for management to provide us with evidence that an independent chartered surveyor issued a signed completion statement. Whilst we were provided with an appropriate supplier payment, management could not provide us with a signed off stage of completion certificate.

This is a control weakness because without that evidence, management cannot be assured that the supplier has completed the work to the required specification. It was explained to us that because this is a central government funded project, these control activities are being carried out at government level.

Audit considerations:

Whilst we are satisfied that there are no material misstatements in your financial statements in relation to Sevington, we have concerns that the governance and controls that KCC have put in place are not effective to mitigate the risk. Sevington is a sensitive, multi-million pound construction and the contract with the supplier sits with KCC (not Government). If control activities are happening at Government agencies, we recommend that KCC obtain and retain these assurances in writing prior to making payments. As it stands the Council is at risk of being party to potential inappropriate payments.

Conclusion:

We have discussed this issue with management and your internal auditors. We have raised a recommendation in relation to the specific issue we have identified as part of our testing – see Appendix A. Given what we have identified, we believe there is value in the Authority reviewing the wider control environment relating to the project management side of Sevington including arrangements to identify and mitigate conflicts of interest.

2. Financial Statements – Key issues discussed with management

£4m invoice to an NHS CCG without any supporting evidence

In our prior year audit, we communicated to you an issue in relation to a £4m invoice. For ease of reference, this is set out below.

Description of the issue (2020/21):

As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description "20/21 contribution to joint investment with adult social care for vulnerable adults".

As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it. This control deficiency has been raised and it is included in the Action plan – see Appendix A.

Auditor considerations (2020/21):

There are certain characteristics about this transaction which raises concerns for us, these factors are set out below:

- We are aware that as at the 31 March 2021, NHS organisations had excess cash and were under pressure to reduce their yearend surpluses. As public sector auditors we were therefore hypersensitive to any transactions which could be used to inappropriately transfer the surplus of an NHS body from 2020/21 to 2021/22.
- This transaction would appear to the auditors of the NHS organisation as a valid expenditure item in the 2020/21 accounts as it was raised by a third party (Kent County Council) with a description of it being a 2020/21 item of expense.
- Despite numerous requests, the Authority was unable to provide any documentation, contractual or otherwise, to validate the substance of the transaction

The risk identified with this transaction (2020/21):

The key risk with this transaction is whether the Authority accepted income from the NHS without any clear evidence of a service being provided to transfer £4m or the NHS body's surplus from 2020/21 to 2021/22. The benefit to the NHS body being that the £4m could then be used to finance healthcare in 2021/22 because otherwise it would ultimately transfer back to the Treasury.

Additional work performed in (2020/21):

As a result of these factors, we performed the following additional procedures:

- Confirmed that the NHS organisation paid this invoice
- Confirmed KCC did not credit note this transaction
- Reviewed all invoices raised by the NHS organisation to ensure the £4m was not clawed back

Conclusion (2020/21):

Based on the additional procedures performed we have found no evidence that the risk has crystalised. Nonetheless, given no expenditure has been incurred against the £4m to date, this risk still remains. Going forward, it is important for the Authority to obtain sufficient evidence from the third party as to the contractual status of this £4m transaction.

Continued overleaf. . .

2. Financial Statements – Key issues discussed with management

£4m invoice to an NHS CCG without any supporting evidence

Update and fact pattern in 2021/22:

As part of our 2021-22 audit we have followed up on the £4m invoice. On 29 March 2022, a credit note for £1.5m was issued to the CCG in respect of the original £4m invoice. At the same time, £2.5m was journaled from the balance sheet to revenue.

In 2021-22, Kent & Medway CCG's surplus was £457k. All other things being equal, without the £1.5m credit note, the CCG would have been in deficit in their 2021-22 accounts which is technically unlawful*.

Evidence obtained:

We requested supporting documentation to substantiate both the £1.5m credit note and the £2.5m recognition of revenue. We were supplied with expenditure pertaining to costs associated with residential and nursing placements. Whilst the costs reconcile to the £2.5m, as no evidence has been supplied to explain what the original £4m invoice related to, we are unable to verify whether the recognition of revenue for this purpose is appropriate. Furthermore, the £1.5m credit note was explained as the balancing figure between what cost had been incurred and the original invoice. Management therefore made the decision to issue a credit note on this basis.

Additional work performed in (2021/22):

As a result of this issue, we performed the following additional procedures:

- Reviewed invoices raised to the NHS to identify additional instances of the £4m – no issues identified
- Reviewed credit notes issued to the NHS – no issues identified

The above procedures confirmed that the £4m is an isolated issue.

Conclusion and audit considerations:

In terms of the financial statements for 2021-22, we are satisfied that this issue does not present a risk of material misstatement. The issue is now closed and there will be no ongoing impact as no amounts are held on the balance sheet as at 31 March 2022. Having said that, the risk that this invoice was used to facilitate the NHS organisation moving a surplus from one year to another crystalised. We cannot conclude whether this was the intention of management due to the lack of any evidence around the purpose and nature of the arrangement to begin with. We have requested management confirm to us in the signed management letter of representation that all information pertaining to the £4m transaction has been supplied to us.

We are communicating the facts to you to ensure transparency on this issue and to ensure the Authority puts in place our control recommendation to prevent invoices being raised without appropriate underlying evidence i.e. signed contract.

* The NHS Act 2006, as amended by paragraph 223H (1) of Section 27 of the Health and Social Care Act 2012 sets a statutory duty for CCGs to ensure that their expenditure in a financial year does not exceed their income (the 'breakeven duty').

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations (including surplus assets) – £2,467 million	Other land and buildings comprises circa £2bn of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end for operational assets or fair value (FV) for assets designated as surplus. The Council has engaged Wilks Head & Eve LLP (WHE) to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 81% of total assets were revalued during 2021/22. The valuation of properties valued by the valuer has resulted in a net increase of £183m. £174m of the gain has been taken to the revaluation reserve with the remaining £9m going through the Comprehensive Income and Expenditure Statement (CIES). Management has considered the year end value of properties not re-valued in year (£484m). In particular, management has considered the potential valuation change in the assets based on the market review provided by the valuer as at 31 March 2022, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value.	As part of our work we have: • reviewed the land and buildings valuation estimate in line with ISA540 requirements and have no issues to raise; • reconciled the fixed asset register to the ledger and the financial statements • assessed management's valuation expert and found them to be competent, capable and independent; and • verified the valuer's outcome against our independent auditor's expert valuation trend report. • verified that management's judgement that the carrying value of assets is not materially different to the current value is reasonable. This has been done by setting an independent expectation of the difference using indices provided by Gerald Eve. • assessed the reasonableness of alternative site judgements and assumptions • assessed the accuracy and completeness of underlying information used to determine the estimate; and • assessed the reasonableness of key underlying assumptions i.e. Build Costs. This assurance was provided to us by our auditor's expert. **Conclusion:** Subject to the completion of the outstanding work set out on page 4, our work has not identified any material issues in relation to this accounting estimate.	Light purple

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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,559m	The Council's net pension liability at 31 March 2022 is £1,559m (PY £1,635m) comprising the Local Government pension scheme as administered by Kent County Council. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £76m net actuarial loss during 2020/21.	• We have assessed the Council's actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to the accuracy of the contribution figures, benefits paid and asset returns, to gain assurance over the 21/22 roll-forward calculation carried out by the actuary. • We have used PwC as our auditor expert to assess your the actuary's assumptions – see table below for our comparison of actuarial assumptions:	Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.6%	2.55 – 2.6%	●
Pension increase rate	3.2 %	3.05 – 3.45%	●
Salary growth	4.2 %	4.05 – 4.45%	●
Life expectancy – Males currently aged 45 / 65*	Pensioners: 21.6 Future pensioners: 23.0	Pensioners: 20.1 – 22.7 Future pensioners: 21.4 – 24.3	●
Life expectancy – Females currently aged 45 / 65*	Pensioners: 23.7 Future pensioners: 25.1	Pensioners: 22.9 – 24.9 Future pensioners: 24.8 – 26.7	●

- Continued overleaf

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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £1,635m **- continued**		• We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2021/22 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets. Conclusion Our work confirms that the decrease in the IAS 19 estimate is reasonable.	Light purple

Page 20

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £57m	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt – known as its Minimum Revenue Provision (MRP). The Council's approach to the MRP is set out to Members as part of the Budget and council tax proposals each year. The basis for the charge is set out in Regulations and statutory guidance. This year the MRP charge was £57m (2020/21 £59m).	**Context** Before 2004, Whitehall issued UK Local Authorities with annual credit approvals, effectively setting a cap on each authority's borrowing. That system ended with the introduction of the prudential framework in 2004 which allowed Local Authorities to spend and borrow without approval. A couple of years ago, the MHCLG (known now as DLUCH) published a policy paper which set out that they were "currently reviewing the statutory powers for capping borrowing and considering how and when we will apply these to protect local financial sustainability". It is clear then that the government is concerned about the financial sustainability of local authorities and so we have performed work around the minimum revenue provision (MRP) set by the authority to ensure not only that it complies with the agreed policy, but that the policy itself is reasonable to ensure the authority is able to repay borrowing in the long term. **Findings:** We have carried out the following work: • Confirmed that the Council's policy on MRP complies with statutory guidance. • Assessed that there are no changes to the Council's MRP policy in comparison to 2020/21 • Assessed and benchmarked the percentage of the Council's MRP charge against the opening capital financing requirement (4.49%). As this is above 2%, it falls within our 'Green' range – no concerns identified. • Assessed and benchmarked the percentage of the Council's total debt against the capital financing requirement (82%). As this is below 100%, it falls within our 'Green' range – no concerns identified. **Conclusion:** Based on our findings, we are satisfied that the MRP charge complies with regulations and is set at a prudent level to repay borrowing over the long term. The MRP charge must remain under regular review, particularly in light of future capital spending plans.	Light purple

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation (£98m)	Buildings are depreciated in accordance with the valuers estimation of value/remaining life. Equipment including vehicles are depreciated based on standard lives and estimates from relevant managers and contract lengths where relevant. For existing assets the source data is the carrying value at the start of the year. For existing buildings this was provided by the valuer. For other existing assets it is the brought forward depreciated replacement cost. For new assets it is the purchase cost during the year. For buildings this is the revaluation performed at year end. The point estimate for depreciation is generated by the asset register based on the inputs of costs and expected lives for each asset. There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year.	**Assets not depreciated in the year of acquisition:** As we communicated in the prior year, management's accounting policy to not depreciate assets in the year it was brought into use is not consistent with the LG Code (4.1.2.41) which requires assets to be depreciatiated at the point in which they are brought into use. We have performed work that confirms this departure does not lead to a material misstatement in the accounts. We have estimated the impact as £2.9m which is significantly below our materiality level. **Remaining economic life assumption:** For specialised assets valued under the 'Depreciated Replacement Cost' method, your valuer provides you with information on the remaining economic life (REL) assumption for each asset. The REL is the key assumption for a depreciation calculation as it sets out how many years the cost of the asset is depreciated. Each year your valuer has assigned the same REL for each DRC asset at 44 years. According to your valuer, 44 years is the life of a DRC asset as new, and your valuer has formed the judgement that it is appropriate to depreciate your entire DRC portfolio on this basis because there is a system of repairs and maintenance both historically and into the future. Our auditor's expert has communicated to us that in their view, this is an unreasonable judgement and one that does not satisfy the requirements to form the assumption based on its current condition. Our auditor expert does not believe it is appropriate to base the assumption on future events which are contingent i.e. future repairs and maintenance. What this means is that our auditor's expert considers the REL assumption used by the Authority to be optimistic and set too high. As a result of this risk, we have done work to quantify the potential impact to determine whether there is a risk of material misstatement in the estimate. A sensitivity analysis was carried out based on a REL calculated from obsolescence data provided by your valuer. We were comfortable with using this data because our auditor's expert concluded that the obsolescence data used by your valuer was reasonable. Using the obsolescence data, we arrived at a REL of 32 years. If this REL was applied to your asset base, the difference on your depreciation estimate would be £6m. As this is not material, we are satisfied that whilst your depreciation charge is optimistic, it is not materially misstated. We have included this difference in our schedule of unadjusted misstatements to ensure that when added to other misstatements, there isn't a material uncertainty in your financial statements. See Appendix C for details.	Blue – materially correct but includes optimistic assumption

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
PFI liability (carrying value - £202m) (fair value - £253m)	PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM , are accounted for as 'on-Statement of Financial Position' by the entity. The PFI liability is determined by the original financial model updated for inflation and relevant variations. The source data is derived from the financial model. Estimates are used for un-invoiced variations (or credits for insurance) based on estimates provided at the time of the variation. In line with IFRS 13 requirements, in addition to the carrying value of the liability on the balance sheet, management must also disclose the fair value of the liability. Management has engaged an expert to estimate the fair value of the PFI liability (£253m). There has been no change in the methodology or underlying assumptions in management's estimation process compared with the prior year.	Our work in respect of the estimate of your PFI liability, including the fair value estimate has not identified any material issues.	Light purple

2. Financial Statements - other communication requirements

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

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Governance and Audit Committee papers. **Specific representations have been requested from management in respect of the £4m invoice to the CCG and the subsequent credit note. The representation confirms that any and all relevant information pertaining to the transaction has been provided to us.**

2. Financial Statements - other communication requirements

Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. Positive confirmations were obtained for all relevant balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We are satisfied that the Council's accounting policies, estimates and disclosures are reasonable having completed our work and confirmed several adjustments to the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management is being provided as promptly as possible. Information and evidence which needs to be provided outside of the main finance team does however take longer. Your finance team are doing a good job to quality assess the information provided by services before it comes to us which reduces the amount of follow up queries we need to raise.

2. Financial Statements - other communication requirements

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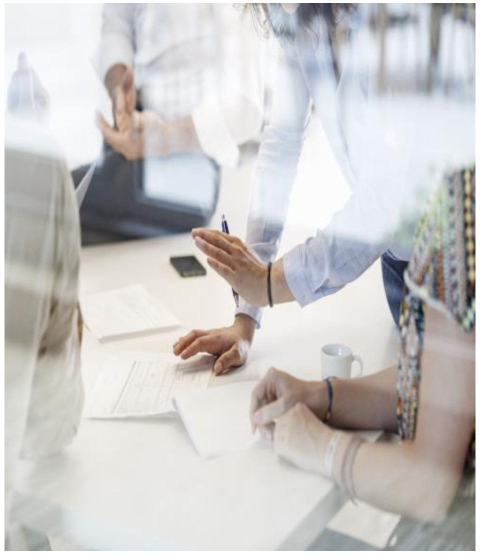
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No issues were identified from our work.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have highlighted to management that the AGS lacks a clear conclusion as required by the Local Government Code. Management has agreed to update the final AGS to include a clear conclusion. This is reported to you in the disclosure misstatements section – see Appendix C.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The NAO recently issued guidance that requires us to provide an assurance statement by 31 March 2023. We are not able to meet this deadline and have communicated this to management and the NAO. The reason is because of planned work on Local Government opinion work up to 31 March 2023. We expect to be able to complete our work by 31 May 2023.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of **Kent County Council** in the audit report, due to our Value for Money and WGA work not being complete. The Value for Money Work is planned to conclude by the end of March 2023 and the WGA work is planned to be completed by the end of May 2023.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

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Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

4. Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Regional Growth Fund Assurance	90,000	Self-Interest Self review (because GT provides audit services) Management	This is a non-audit audit related service which is customarily provided by the auditor. • separate engagement team led by a different Key Audit Partner • reporting of the non-audit work to 'Those Charged with Governance' (TCWG) via this report • before agreeing to carrying out this work, we consulted with our ethics team to ensure the all threats to our auditor independence were identified and that appropriate safeguards have been put in place. This work was approved by our ethics team. • Before agreeing to carrying out this work, we sought approval from PSAA because of the perceived ethical threat. This work has subsequently been approved by PSAA.
Non-audit related			
CFO insights (Subscription ending September 2021	12,500	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 £12,500 in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Journals authorisation:** Manual journals posted to the general ledger does not require authorisation or approval. There is no segregation between the preparer and poster of a journal. For more details on the risk see page x.	We recommend that management reassess the journal control environment such that they are satisfied that the residual risk meets the Authority's risk appetite. **Management response** We have provided external audit with detailed processes which demonstrate why we do not consider there to be a control risk. However, we will, as requested, review the journal control environment and consider whether there are changes that could be made to reduce the residual risk. Our aim is to do this before July 2023.
High	**Sevington capital payments:** KCC are releasing payments to suppliers without obtaining signed certificates of completion. For more details on the risk see page x.	KCC should obtain and retain evidence of a signed certificate of completion prior to releasing payments to the contractor. This is to ensure key contractual risks are being effectively managed. **Management response** A completion certificate is not appropriate for these works as they are on-going. The assurance that the works have been completed to the required specification was provided through a verification process. KCC Project Manager received monthly applications, and these were verified before an order was raised in the system (WAMS). The order was approved by the Director before it was committed. The contractor then issued an application which was checked against the approved application and payment was arranged. The payment was approved by the Director and Corporate Director. In addition to this process, consultants were employed by DfT to review all applications and payments so that DfT were satisfied and in turn Defra satisfied also. Once final payment has been approved, a completion certificate will be issued. As recommended, the Council's internal audit service will review the wider control environment relating to the project management including the arrangements to identify and mitigate conflicts of interest.

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Controls

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

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium	School's bank accounts: As part of our testing the Council's cash and cash equivalents we do work to assure ourselves that the cash balances held by KCC maintained schools is materially accurate. As part of our sample testing, we identified that for 6 out of the 7 schools selected, the bank reconciliation was performed at a date other the balance sheet date. In most cases they were performed 1 – 2 weeks prior to the 31 March 2022. We enquired with management as to why the reconciliations were not done at the balance sheet date. It was explained that the bank reconciliations were done a couple of weeks before year end to accommodate half-term and the tight deadline to make returns to KCC to prepare their year end accounts. It is important to note that this is not a change in the process, school's have historically submitted bank reconciliations at dates prior to 31 March. We have done work to assess and quantify the risk of material misstatement. This involved comparing the reported bank balance for school's to the bank balance at 31 March 2022 we obtained direct from the bank. Through this evaluation, we are satisfied that the risk is not significant and our extrapolation of the potential misstatement was less than trivial. Nonetheless, we are of the view that school's bank reconciliations should be done at the balance sheet date and if this means extending slightly the deadlines for submission to KCC then so be it. We have communicated this to management and they have assured us that they are putting in place arrangements to change the process for 2022/23.	KCC should ensure all school's complete their annual bank reconciliation returns as at 31 March. Management response We are reviewing our year end timetable to consider how we can enable schools to complete their reconciliations as at the 31 March. We will ask that those schools with material balances are prioritised by the Schools' Finance team as smaller schools may have less capacity to meet the deadlines.

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Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of Kent County Council's 2020/21 financial statements, which resulted in 6 recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all 6 of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Insufficient evidence for raising revenue debtor:** As part of our testing of post period end invoices raised, we identified an invoice raised by KCC in April 2021 for a total amount of £4 million. This invoice was raised to an NHS CCG with the description *"20/21 contribution to joint investment with adult social care for vulnerable adults"*. As part of our work and challenge of management, it became clear that the Authority was unable to provide sufficient appropriate evidence to support the raising of the debtor. Although management took reasonable and prudent steps not to recognise revenue in the 2020/21 accounts, there is a control deficiency insofar as the Authority should not be raising invoices unless there is sufficient contractual evidence to support it. **Prior year recommendation:** Management should ensure debtor invoices are only raised when there is sufficient evidence to support the substance of the transaction.	**Management response:** This was an isolated incident and the importance and requirement of having clear evidence before raising invoices has been reiterated at the Budget Management Team and at Team meetings. **Auditor 2021/22 update:** Our procedures this year have not identified any more instances of invoices being raised without appropriate documentation.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**CHAPS payments:** In December 2020, your internal auditor issued a report on urgent CHAPS payments. The opinion provided by your internal auditor was 'limited' meaning that adequate controls were not in place. This report raised concerns about the lack of due process, controls, oversight and governance around these payments. As a result of these issues, your internal auditor concluded that 'the absence of robust oversight and control heightens the risk of fraudulent activity, errors, or omissions being overlooked'. As part of our risk assessment we therefore identified this as a risk factor and performed specific procedures to ensure that the risks identified did not crystalize into a material error within the financial statements. **Prior year recommendation:** Management should ensure they implement the control recommendations raised by your internal auditors in relation to CHAPS payments	**Management response:** All recommendations and management actions following the internal audit of CHAPS payments have been implemented. A subsequent issue around year end processing and posting dates has been found and officers are in the process of identifying the cause and will implement processes and a solution prior to next year-end. **Auditor 2021/22 update:** Our procedures this year have not identified any issues pertaining to CHAPS payments.
✓	**Unsigned Cantium Contract:** As part of our risk assessment procedures carried out in March 2021 we requested to obtain signed copies of contracts between the Council and suppliers the Council has outsourced key finance/accounting functions to. Signed contracts were obtained for all outsourced providers apart from Cantium. Six months since our original request, we have still not received the signed contract with Cantium, a wholly owned subsidiary of the Council. There is some uncertainty as to whether the contract was signed at all. As a result, we consider this to be an internal control deficiency. **Prior year recommendation:** Management should ensure that all contracts are signed and maintained such that they can be accessed on request.	**Auditor 2021/22 update:** We have obtained and reviewed the signed SLA contract with Cantium for 2021/22.

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Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Related party interest of Councillors: On probing the nature of one Councillor's relationship with a community interest company, it was made apparent that KCC had made the assumption that the Councillor's position as a director for the company was as part of their role at KCC when, in actual fact, it is a position that they hold outside of their Councillor duties. We identified on Companies House that the councillor is a 'person with significant control'. In line with the CIPFA Code Section 3.9, as the councillor has significant influence over KCC then the community interest company is a related party. Also, given the sum of transactions (£708k) in 20/21 is significantly above our own specific materiality threshold for Related Parties, we deem this to be a necessary disclosure. This also would have been the case for prior years. The accounts have been updated for this disclosure omission. Nonetheless, there remains a control deficiency as management's processes and controls failed to identify and detect a related party transaction. Prior year recommendation: Management should review their processes and controls to identify related parties to ensure they capture all interests of Councillors and challenges whether those interests are part of their role as a Councillor or not.	Auditor 2021/22 update: We have reviewed the Member Interest Form to confirm that it does ask members whether the declared relationship is private or as a representative of KCC. As such, we are comfortable that management have implemented this recommendation appropriately and that this will mitigate the risk of unidentified related parties being present in 21/22.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Gross Internal Area (GIA) data testing for PPE revaluations** As part of our PPE revaluations testing, we reconcile the GIA/Floor areas per the valuers report back to your source estates system (K2). As part of this work we identified instances where your valuer had identified additional elements or blocks which did not appear in the K2 system. An example being where the valuer had identified and valued a football astro pitch which was not included in your estates register. Given the valuer had visited and measured these sites, we are comfortable that their valuation exercise is complete and accurate but it does indicate that your estates system has not fully been updated. Based on our work we are satisfied that there is no residual risk of material misstatement but we are highlighting the discrepancy should management deem it worthwhile to update the K2 system. **Prior year recommendation:** Management to consider whether the K2 system needs to be updated for components identified by your valuer which are not currently on the estates system.	**Auditor 2021/22 update:** We have confirmed that the K2 system was updated for the issue identified in the prior year. We are therefore happy to close this issue but management needs to put in a semi-regular process to update this on an ongoing basis rather than as a one-off
✓	**Declaration of interest:** As part of our work on the related party disclosure, we requested to obtain the signed declaration of interest forms pertaining to the Corporate Management Team (CMT). Initially, management provided all but one of the declarations. It took over two months for management to provide us with the declaration form for the final member of the CMT. This form had to be signed retrospectively to cover the financial period in question. NB: following receipt of the final signed declaration form, we have obtained the necessary assurances to complete our work on related party transactions. **Prior year recommendation:** Management should ensure all members of the CMT, and particularly those not permanently employed by the Council, have returned signed declaration forms ahead of the publication of the draft financial statements	**Auditor 2021/22 update:** As part of our audit work this year on related party transactions, we have not identified any issues in relation to signed declaration forms. We also obtained evidence of enhanced processes by KCC to send reminders to officers to complete returns. We are however aware that management are still exploring the possibility of having automated workflows to send reminders to individuals. This additional control has not yet been implemented but we are satisfied that sufficient improvement in arrangements has been made to close this control deficiency.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2022.

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Infrastructure prior period adjustment: Upon review of management's prior period adjustment (PPA) in relation to infrastructure assets depreciation, we identified a further £24.9m of accumulated depreciation that had been incorrectly charged in previous years. The error arose because depreciation had been charged on Land assets within the infrastructure assets balance. Despite the error not being material, as it relates to an issue where there is already a PPA in the accounts, management felt under IAS 8 and IAS 1 that it was appropriate to update their PPA to also include the impact of this. We are satisfied that the adjustment is in line with IAS 8 and IAS 1. The adjustment increases the net book value of opening PPE. The corresponding entry goes into the unusable reserve 'Capital Adjustment Account'. For the avoidance of doubt, this adjustment has no impact on the General Fund.	Council and Group	Nil	Opening PPE 24,865 Opening Capital Adjustment Account Reserve (24,865)	Nil
Overall impact		**Nil**	**Nil**	**Nil**

C. Audit Adjustments – unadjusted misstatements

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Understatement of energy accrual: As part of our testing of your expenditure accruals, we identified one large accrual for £18.9m which related to energy costs relating to March 2022 which had not yet been invoiced. The accrual was based on the costs incurred in the previous month (Feb) with a 15% reduction. We tested the reasonableness of this estimate by comparing it to the actual costs of energy pertaining to March which was billed to KCC in April 2022. The total cost of March related invoices was £22m. The estimate was therefore understated by £3.146m. As the difference is not material, management have decided to note adjust the financial statements. We have however reported it to you as an unadjusted misstatement as the difference exceeds the triviality threshold. It is also worth noting that had management not applied the 15% reduction in their original estimate, there would be almost no difference in the estimate to the actual. Going forward, management should reconsider whether it is appropriate to apply the 15% reduction on this estimate.	Council and Group	Expenditure 3,146	Creditors (3,146)	3,146	Not material

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Depreciation: As explained on page x, our auditor's expert identified issues in the remaining life assumption used by the Authority in its estimate for depreciation. Our work identified that the remaining life assumption was based on inappropriate judgements about future activity rather than it being based on the current state of each property. We quantified what the impact of this is and estimated that the potential overstatement in your depreciation estimate is £6 million. Having done this work we are therefore satisfied that this issue does not lead to a material misstatement in your financial statements. As the amount exceeds our triviality threshold we are reporting it to you and we have included in this schedule here to ensure it doesn't in aggregate contribute to an overall material misstatement in your financial statements.	Council and the Group	Expenditure 6,000	PPE (6,000)	6,000	Not material - estimated

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Overstatement of fair value of equity investment of Kent Holdco Ltd: Kent County Council has control and owns the shares of several subsidiary companies, the largest of which is Kent Holdco Ltd. This investment is held on the balance sheet of Kent County Council at fair value. The fair value estimate of Kent Holdco Ltd as at 31 March 2022 in the draft financial statements was £14.7m Management use an expert to assist them in estimating the fair value of the equity investment. The estimate is based on several assumptions, one being the net cashflows of the entity in the current and future periods. As part of our work, we challenged the reasonableness of this assumption and identified that it included cashflows which did not relate to the subsidiary. The estimate included cashflows pertaining to 'Core & Laser' which is not part of the Kent Holdco company boundary. This meant that the fair value estimate was overstated. Management have since updated the calculation to remove all cashflows pertaining to Core & Laser. This reduced the fair value estimate by £9.4m down to £5.3m Note, whilst this increases expenditure in the CIES, the impact is reversed in the MIRS into the Capital Adjustment Account as the shareholding is capital funded.	Council	Expenditure 9,397	Investments (9,397)	9,397	Not material

C. Audit Adjustments – unadjusted misstatements

Detail	Relates to	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Extrapolation of errors in our operating expenses completeness testing: As part of our work to obtain assurance that expenditure and creditors are complete, we perform testing of payments made post period end (April and May). As part of our sample testing, we identified 4 errors totalling £344,691.81 caused by post year end payments relating to services provided in 21/22 but not being accrued for in year. We evaluated the impact of these errors by extrapolating it over the population being tested. The combined extrapolated effect of these errors was £7,034,456. Whilst this provides us with assurance that your financial statements are free from material errors, it is an extrapolation above trivial and so we are required to report it to you as an unadjusted misstatement. It is important to make clear that the £7m **does not** represent a factual misstatement in your financial statements. Rather, the £7m represents a forecast of the *possible* misstatement if the same level of error we identified in our sample was reflected across the entire population. Given 3 of the 4 samples related to payments on capital, the forecasted misstatement is split across an understatement in capital additions and revenue expenditure.	Council and Group	**Expenditure** 95	**Creditors** (7,034) PPE – additions 6,939	95	Not material – extrapolated
Total impact	Council and Group	18,638	(18,638)	18,638	Not material

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C. Audit Adjustments – prior year unadjusted misstatements

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Impact of prior year unadjusted misstatements

The table below provides a summary of unadjusted misstatements identified in the prior year audit which had not been made within the final set of 2020/21 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Total impact of unadjusted misstatements in the prior period	(7,089)	7,089	(7,089)
In the prior year, there were 6 separate unadjusted misstatements. In total, the impact was that the balance sheet was understated by £7,089k with the deficit on the provision of services being overstated by the same amount. Management chose not to adjust the accounts because they were not material and some of them were extrapolations.			
Overall impact	(7,089)	7,089	(7,089)

Conclusion: The impact of prior year unadjusted misstatements is not material. Even when added to unadjusted misstatements in the current period, there is no cumulative material misstatement.

C. Audit Adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Note 38 – Fair value disclosures	Signage used for the carrying value and fair value of cash and cash equivalents under financial liabilities is disclosed with a negative sign, it should be disclosed with a positive. Resultantly the total amount of carrying value and fair value would change by £32,512k	To update note 38 accordingly	✓
Note 15 Grant Income	The draft financial statements included a transposition error in the disclosure of 'Asylum' and 'Department for Transport' grants. The amount for 'Asylum' in the draft accounts was £81m when in fact it should have been £27m. 'Department for Transport' was disclosed as £27m when in fact it should have been £81m.	To update note 15 accordingly	✓
Note 39. Nature and Extent of Risks Arising from Financial Instruments	Our review identified that in the note relating to Credit ratings, The Council had not disclosed internal loans amounting to £17,002k. This was raised with the management and they have agreed to reinstate the disclosure to include internal loans as well.	To update note 39 accordingly	✓
Note 38 - Financial Instruments - categories of financial instruments	The short term creditors is overstated by £1,718k. The Council did not exclude deferred income of £1,984k. Deferred income does not meet the definition of financial instrument. The council has also excluded an unidentified figure £266k giving a net overstatement of £1,718k. After discussion and raising it with management, they have agreed to amend the note and the revised figure should read as £323,372k and the sub-total should be £325,979k. **NB: This is disclosure only and has no net impact on the reported position of the Council.**	To update note 38 accordingly	✓

C. Audit Adjustments – misclassification and disclosure

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Note 6 - Officers remuneration	Our review identified of the senior officers note identified several people that should have been disclosed but were not in the initial draft financial statements. The issue was raised with management and the final version of the accounts has been updated to include those people missed. For clarity, there were four individuals missing from the original disclosure which has now been updated for.	To update the officers remuneration disclosure note	✓
Note 2 Accounting policy	In note 2 of the draft financial statements, the accounting policy for Fair Value Measurement of non-financial assets stated: *The Council also measures some of its non-financial assets such as surplus assets, investment properties and assets held for sale and some of its financial instruments such as equity shareholdings at fair value at each reporting date.* As per the policy the surplus assets are valued at fair value at each reporting date. However, the council measures its surplus assets at fair value at least every four years in line with the revaluation policy for Property, Plant and Equipment. Therefore we raised to management the need to clarify the policy so as not to mislead the reader in how the Council is accounting and valuing surplus assets. Management has agreed to update the narrative to make clear that Surplus assets are revalued once every four years.	To update the accounting policy accordingly	✓
Note 34 - Audit Cost	Audit costs in note 34 were incorrect in the draft financial statements. In particular, the disclosure was incomplete because it did not include: • Fee of £90,000 for RGF grant work (see Appendix D) • Fee for £10,000 for Teacher's Pensions work (see Appendix D)	To update note 34 accordingly	✓
Annual Governance Statement - Conclusion	The Annual Governance Statement (AGS) did not include a clear conclusion as required by the CIPFA Local Government Code. Your Monitoring officer has agreed to update the AGS with a clear conclusion.	To update the AGS	✓

C. Audit Adjustments – misclassification and disclosure

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Balance sheet, Cash Flow statement, note 38, note 28	Our testing of classification of investments in call accounts identified that these investments were classified as short term investments at amortised cost, however based on the definition of 'Cash and Cash equivalents' per IAS 7, these investments should have been classified as Cash and Cash equivalents in the statement of accounts. These investments amount to £5m for 21/22 and £35m for 20/21. Management has agreed to correct presentation for 21/22, however since £35m is below materiality PY figures are not restated as IAS 8 only requires management to correct material prior year errors.	To update the balance sheet accordingly	✓
Note 17 - Property, Plant & Equipment	In the PPE disclosure in Note 17, the presentation of transfers to/from Assets Under Construction (AUC) was misleading. The disclosure only showed one side of the movement rather than correctly showing where the transfer has gone from and to. Management has agreed to update the disclosure to better present information to the reader of the accounts in line with IAS 1. Please note, this has no net impact on PPE, it is just a representation of note 17.	To update the PPE note accordingly	✓
PPE – disposal and donations	As part of our PPE work, we identified that the council has shown £20.06m as donation for Land and Buildings under PPE Note 17. This is in relation to Simon Langton Girls Grammar School which was part of the Priority Schools Building Programme 2. It is a DFE managed project so no capital expenditure has gone through KCC's books. Several blocks have been demolished at the school and replaced with the new one however, as stated before, the capital expenditure is not spent by the council. The council owned the school at the NBV of £13.911m on 31.3.21. We reviewed the prior year valuation along with current year valuation and noticed that there are 4 blocks which were demolished completely and 2 blocks added during the year. Therefore, in our view, the 4 blocks which were demolished completely with a total value of £5.5m should have been derecognized and shown as loss on disposal of assets. The new blocks added with a value of nearly £25.5m should have been shown as donations. The Council has shown the net increase in value as donation rather than showing both transactions gross. At the net level, there is no misstatement on the balance sheet or CIES, however it does mean donations is understated by £5.5m and loss on disposal is understated by £5.5m. **Management have decided not to adjust the accounts for this issue.**	To update note 34 accordingly **This disclosure has not been amended. This is because in the view of management it is not material to the financial statements.** **We are satisfied with management's judgement and therefore does not impact on us issuing a true and fair opinion.**	X

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C. Audit Adjustments – misclassification and disclosure

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Investments – balance sheet	A classification adjustment between long-term and short-term investments was proposed. £4,699k worth of investments in GET no use Empty loans had been mistakenly classified as long-term despite having maturity dates in 21/22. As such, KCC have agreed to reclassify these to short-term. As a result of correction note 38 will also need to be adjusted following correction in the balance sheet. Long-term: Draft: 321,825k Revised: 317,126k Short-term: Draft: 38,835k Revised: 43,534k	To update the balance sheet accordingly	✓
Group accounts CIES	As part of our testing of intercompany eliminations in your group consolidation we identified classification misstatements. 1. Classification of Invicta Law spend/income eliminated from Adult Social Care & Health Gross Expenditure when is should have been eliminated against Children, Young People & Education Gross Expenditure. (£6,181k DR & CR) 2. Classification of TEP spend with schools eliminated against Strategic & Corporate Services Gross Expenditure when it should have been eliminated against Children, Young People and Education Gross Expenditure. (£11,242k DR & CR) 3. TEP Income eliminated against Group - Holdco Ltd Gross Income and should have been eliminated against Children, Young People & Education Gross Income (£15,265k DR & CR) Management have updated the final accounts for the above misclassifications.	To update the Group CIES accordingly	✓

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C. Audit Adjustments – misclassification and disclosure

Disclosure change or issue	Detail	Auditor recommendations	Adjusted?
Note 5 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty	In the draft financial statements, the disclosures of estimation uncertainty did not meet the requirements of IAS 1. We have agreed with management revisions to this note such that it does meet the requirements. In doing so, the note now better explains to the reader the source of material estimation uncertainty linked to assumptions.	To update the disclosure accordingly	✓
Fully depreciated assets in Vehicles, Plant and Equipment	As part of our audit work on your PPE, we reviewed the extent of fully depreciated assets in Vehicles, Plant and Equipment (VPE). As at 31 March 2022, there was a total of £35.8m of VPE which was fully depreciated. We therefore requested management to perform an analysis to provide assurance as to how much of that balance is still in use. The risk being that fully depreciated assets have been disposed of and therefore the gross cost needs to be removed from the disclosure. Management completed this analysis and obtained assurance that £20m is still in use. For £12.4m, management obtained positive confirmation that those assets are no longer in use and there is a residual £3.4m where no evidence has been obtained. We have reviewed management's analysis and the evidence obtained, and we are satisfied that the £20m management assert is still in use is reasonable. Therefore, there is a £15.6m uncertainty in the PPE disclosure whereby the gross cost of VPE is overstated. This is purely presentation and has no impact on the net reported position for management. Having obtained assurance that the disclosure misstatement is not material, management have decided not to adjust the accounts. Management have however agreed to adjust the accounts in the following period for assets where there is confirmation that they are no longer in use.	To update the disclosure accordingly	No – this is a non-material unadjusted disclosure misstatement

D. Fees

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

Audit fees	Proposed fee	Indicative Final fee
Council Audit	£210,675	TBC
Total audit fees (excluding VAT)	**£210,675**	**TBC**

Non-audit fees for other services	Proposed fee
Audit Related Services	
Teachers' pensions	10,000
Regional Growth Fund Assurance*	90,000
Non-audit related	
CFO insights	12,500
Total non-audit fees (excluding VAT)	**£126,500**

** In our Audit Plan, we communicated the Regional Growth Fund Assurance work. At that stage we indicated a fee of £100,000 for the work. The actual fee charged for this work is £90,000 and this is what we are now reporting and what is included in the financial statements.*

F. Audit letter in respect of delayed VFM work

Rosalind Binks

Chairman of the Governance and Audit Committee

County Hall

Sessions House

Maidstone, Kent

ME14 1XQ

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28 February 2023

Dear Rosalind

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 March 2023 which is within the 3 month window permitted by the NAO.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Paul Dossett

Partner

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Grant Thornton

Kent County Council Auditor's Annual Report

Financial Year 2021-22

March 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021-22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our findings for 2020-21 concluded that there was <u>one</u> significant weakness within arrangements for financial sustainability. This was specifically linked to the High Needs deficit. Our findings for 2021-22 conclude that there are <u>two</u> significant weaknesses within arrangements for financial sustainability – High Needs, which remains weak, and the wider revenue budget. Therefore, overall, the situation for financial sustainability has deteriorated. For 2021-22, we also conclude that there were three other new significant weaknesses within arrangements for governance and improving economy, efficiency and effectiveness as well.

Our conclusions and the direction of travel between 2020-21 and 2021-22 are shown below. Our recommendations for 2021-22 are summarised in Appendix C to this report. Progress in 2021-22 against the key recommendations and improvement recommendations made for 2020-21 is summarised in Appendix D to this report.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	Risk identified during planning because of the Council's low level of reserves	Significant weakness in arrangements identified. One key recommendation made and four improvement recommendations made	Significant weakness in arrangements identified during testing. Two key recommendations and two improvement recommendations made	↓
Governance	No risk of significant weakness identified during planning	No significant weaknesses in arrangements identified, but three improvement recommendations made	Significant weakness in arrangements identified during testing. One key recommendation and one improvement recommendation made	↓
Improving economy, efficiency and effectiveness	Risk identified during planning because of the inadequate rating issued by Ofsted in respect of Special Educational Needs service provision	No significant weaknesses in arrangements identified, but two improvement recommendations made	Significant weakness in arrangements identified during testing and two key recommendations made	↓

No significant weaknesses in arrangements identified or improvement recommendation made.

No significant weaknesses in arrangements identified, but improvement recommendations made.

Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability

The Council faces a savings requirement of £86 million in 2023-24 as well as a significant and growing deficit on the High Needs block of the Dedicated Schools Grant and school transport. The Council has reported a significant forecast overspend in 2022-23 that is likely to impact on its financial resilience. Strong decision-making and control over spend will be needed in the coming years, as well as a holistic approach towards managing demand for services. We make two Key Recommendations on Pages 13 and 14 and two Improvement Recommendations on Pages 15 and 16 of this report. These issues are very unlikely to be resolved by additional Government funding. The Council's administration will need to make some hard decisions about priorities and service provision.

Governance

There was a failure to comply with the Council's constitutional requirements in relation to the re-procurement of the SEND transport provision. The Annual Governance Statement includes comments on issues and complaints about feelings of safety in meetings and on committees. In addition, a review of the Governance and Audit Committee undertaken by CIPFA commented in July 2022 that the Committee should be more apolitical. We make one Key Recommendation on Page 21 and one Improvement Recommendation on Page 22 of this report. In response to the issues we have highlighted, we are undertaking a more in depth review of governance in the Council.

Improving economy, efficiency and effectiveness

Ofsted and CQC reported in November 2022 that there has been inadequate progress with required improvements to the Council's SEND services. The required improvements were reported in 2019. Also, a failed re-procurement of SEND transport in February 2022 resulted in significant service disruption. We make two Key Recommendations on Pages 26 and 27 of this report. Given the size of the budget deficit which is continuing to grow, the arrangements for achieving value for money are clearly inadequate in this service.

We are nearing completion of our audit of your financial statements and plan to issue an unqualified audit opinion following the Governance and Audit Committee meeting on 28 February 2023. Our findings are set out in further detail on page 28.

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.	We are nearing completion of our audit of your financial statements and plan to issue an unqualified audit opinion following the Governance and Audit Committee meeting on 28 February 2023. Our findings are set out in further detail on page 28. This opinion will be issued by 31 March 2023.
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not issue statutory recommendations.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a Public Interest Report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not apply to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue an advisory notice.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not apply for a judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 7 to 27. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

- Identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- Plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- Ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- Identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

FS1: Identifies significant financial pressures and builds them into plans

FS2: Plans to bridge funding gaps and identify achievable savings plans

FS3: Plans finances to support the sustainable delivery of services in accordance with priorities

The Revenue Budget

The Revenue Budget for 2021-22 was approved in February 2022, with a Net Budget Requirement of £1,129 million. The Net Budget Requirement assumed that the Council would draw down £22.2 million from reserves during 2021-22 and that it would generate savings and income of £39.6 million. The year end outturn report for 2021-22 shows that the Council went on to achieve a small underspend during the year of £7.6 million, after the revenue accounts received contributions from the General Fund and Earmarked Reserves of £15.3 million.

The reported underspend for 2021-22 indicates that financial pressure was managed well during the year. However, the underspend was stated net not only of roll-forwards of £7.1 million but also of some £7.7 million of central funds and one-off grants released to support Adult Social Care and Health costs. The reported underspend also excluded a deficit of £41.2 million on Schools Delegated Budgets. Demand for Children's Social Care, Adult Social Care, and the High Needs block of the Dedicated Schools Grant was rising in 2021-22 but the effects of increased demand were somewhat masked by savings in other parts of the budget; one-off income; and the statutory override for the High Needs deficit.

The financial challenges have increased since the end of 2021-22. During 2022-23, demand for services continued to rise; inflation increased significantly; and some planned savings were delayed or not delivered. The Net Revenue Budget for 2022-23 allowed for price inflation of £28.6 million and increased demand and cost drivers of £20.7 million. Savings and additional income of £37.9 million were planned for the year to balance the budget but the Council recognised within the budget report that *'Delivering a savings programme of this magnitude will be challenging and will require some tough decisions'.* The budget included a risk reserve of £25 million to reflect the financial challenge the Council faced.

However, the year 2022-23 has proved even more challenging than the budget planned for. The invasion of Ukraine by Russia happened a few weeks after the budget was set and the related financial consequences have impacted councils across the country. Quarter 2 data presented to Cabinet in December 2022 forecast that the non-school's revenue account would overspend by £60.9 million by the end of the year. Factors driving the expected overspend include significant increases in the weekly costs of Adult Social Care because of inflation in the labour and provider market; adult hospital discharges having more complicated needs; rising energy costs affecting adult social care residential overheads and the cost of home to school transport; and increased demand coupled with more complicated needs for children in care.

The overspend that the Council expects to incur in 2022-23 is likely to affect the Council's ability to continue to deliver the services currently provided or to the same level in future years. Whereas in February 2022 the Council had identified the need to make savings of £36 million for 2023-24, by January 2023, the Council was anticipating a much higher savings need of £86 million for 2023-24.

In November 2022, shortly before the Quarter 2 data was reported to Cabinet, the leader of Kent County Council wrote jointly with the leader of Hampshire County Council to the Prime Minister, the Chancellor of the Exchequer and the Secretary of State for Communities and Local Government. In their joint letter, the leaders stated that they were *'facing budget deficits over the next few years of a scale that has never been seen before"* and that *'without some immediate help and a clear plan for long term financial sustainability we are likely to be considering Section 114 notices within the next year or so'.* The leaders stated that the amount they could raise from council tax and business rates would barely cover normal inflationary pressures, leaving no funding to cover expected significant ongoing growth in adult and children's social care services.

Whilst the year 2021-22 itself reported a net revenue underspend, the underlying budget deficits particularly arising from adult and children's social care demand and price pressures and funding shortfalls were clearly present. The pace of cost increases in the social care sector poses a significant risk. The joint letter to the Prime Minister shows that the Council understands the severe financial situation it is in but nevertheless the Monitoring Officer highlighted in the Annual Governance Statement for 2021-22 that there have been instances of the administration directing resources to non-core activities. To avoid the s114 notice that the Council predicted to the Prime Minister, steps need to be taken by the Council itself to control expenditure, which may mean the administration having to make difficult decisions in the future around non-core activities. We state this in a Key Recommendation on Page 13. The Council's Strategy for 2022-26 ('Framing Kent's Future') outlines what the Council's strategic objectives are for the next four years. The ruling administration will need to prioritise, and the Council will need to be able to communicate how and what it prioritised.

For Kent in particular, we also note that risks in the budget are exacerbated by the demand management difficulties it has not only in the Special Educational Needs and Disability sector but with inwards migration as well.

Special Educational Needs and Disability (SEND)

During 2021-22, Kent County Councils' Schools' Delegated Budgets overspent by £41.2 million. Within the Schools line of accounts, the High Needs deficit increased from £51M at the start of 2021-22 to £97M by the end of 2021-22. Demand for High Needs support has been rising in Kent since 2014 and we reported in the Annual Auditors Report for 2020-21 that there were significant weaknesses in the financial sustainability of the High Needs service. At the time of writing this 2021-22 Auditors Annual Report, the Council estimates that a child in Kent is 20% more likely to receive an Education, Health and Care Plan (EHCP) in Kent than any other County.

Since May 2022, the Council has been working proactively with the Department for Education (DFE) to agree a safety valve recovery package. The Council has also been working hard, including with external consultants, to build a strategy for managing down demand. Although profiling is not yet complete, papers reviewed during our testing indicated that the Council will be able to contain the growth of the deficit to £220 million by 31 March 2028. DfE has proposed to write off a proportion of the forecast cumulative deficit (by the end of 2027-28). In return, the Council will be required to identify funding to cover the residual deficit and agree to make significant changes to local High Needs systems so that they are on a more sustainable financial footing and better placed to respond to pupils' needs.

Demand management initiatives that the Council is already working on focus on transition points (11+ and 16+); challenging schools to build-in more mainstream SEND support capacity; working with parent groups; and liaising with the adult social care service line (as the children of today will be the Council's adult service users of the future). The direction of travel is positive, but it will take several years for the deficit to be eradicated. For 2021-22 there remains a significant weakness within arrangements for a financially sustainable SEND service.

We note that the high number of children with High Needs using special and private schools in Kent has also led to a significant increase in the Council's school transport costs. During 2021-22, the Council spent some £50 million per annum on school transport. With energy costs rising, there is a risk that this cost will continue to rise. The Council re-procured school transport in February 2022 but with a final cost saving of only £1 million per annum.

We also note that despite the high costs incurred, Ofsted and the Care Quality Commission (CQC) reported in November 2022 that there remain significant quality and operational weaknesses within the Council's SEND services. We make a Key Recommendation on Page 14 of this report that a more holistic approach needs to be taken to managing SEND demand and SEND financial management issues in Kent.

Migration

Kent County Council spends around £27 million per annum on asylum. The asylum costs relate to duties discharged in connection with Unaccompanied Asylum-Seeking Children. In addition, from separate grant funds, Kent plays the same role as other Councils in co-ordinating Afghan and Ukrainian resettlement schemes. What makes Kent unique is, because of geographical location, the county also hosts key Home Office funded sites for asylum seekers: Manston processing centre; Napier Barracks; and at least ten hotels used by the Home Office as holding centres for newly arrived asylum seekers. The Council bears no direct costs for Home Office sites but does retain statutory duties for public health; safeguarding; schooling; and counter terrorism (Prevent) for all the people staying in and around them. For this, the Council receives no additional funding.

As a gateway authority and as one of the UK's key borders with the Continent, Kent sees high migration traffic. The Council has to manage the day-to-day impacts on its domestic population as well. In July 2022, the Council was forced to take a conscious decision not to comply with statutory duties under the Children Act as the high number of unaccompanied asylum-seeking children arriving in the county made effective compliance impossible. The Home Office introduced a new national scheme shortly afterwards to alleviate some of the pressure on Kent. In November 2022 the leaders of all 14 local authorities in Kent and Medway wrote jointly to the Home Secretary outlining the 'overheating' in the system and the fact that people were not receiving the statutory services they are entitled to because the system is overwhelmed by the volume of demand. The letter stressed that the geographic area would not be able to cope with hosting any additional Home Office sites.

The letter to the Secretary of State contained little financial data outlining the additional cost to the Council of public health; safeguarding; schooling; and counter terrorism for Home Office sites. Internal reporting within the Council on Home Office site impacts also tends to focus on actions and outputs rather than quantifying what it costs the Council to deal with the statutory duties around the sites. Many of the Council's additional costs are sunk in staff time which is not easily quantified. Whilst there is no guarantee of additional funding, capturing and reporting the additional costs could add weight to representations to government and we note this in an Improvement Recommendation on Page 15.

FS4: Ensures financial plan is consistent with other plans

The Council has in place a Capital Strategy, Treasury Management Strategy, Investment Strategy and People Strategy which align with corporate aims. The Capital Strategy is supported by a Capital Programme which, since 2022-23, has been phased over ten years and supported by a reserve to fund feasibility costs. The ten year Capital Programme was introduced in response to a growing trend of year on year slippage in capital spending. Our Auditor's Annual Report for 2020-21 identified that £175.4 million of planned capital spending for 2020-21 had been re-phased to later years and we recommended that steps be taken to reduce slippage in future years. Revenue and Capital Outturn reporting for 2021-22 recorded further slippage in 2021-22 of £171.7 million. Despite the move to a ten year Capital Programme, slippage remains relatively high. Quarter 2 data for 2022-23 presented to Cabinet in December 2022 forecast slippage of £103.7 million for 2022-23. This can make planning for the cost of capital difficult, although it is noted that part of the slippage is planned rephasing to reduce pressures on the budget.

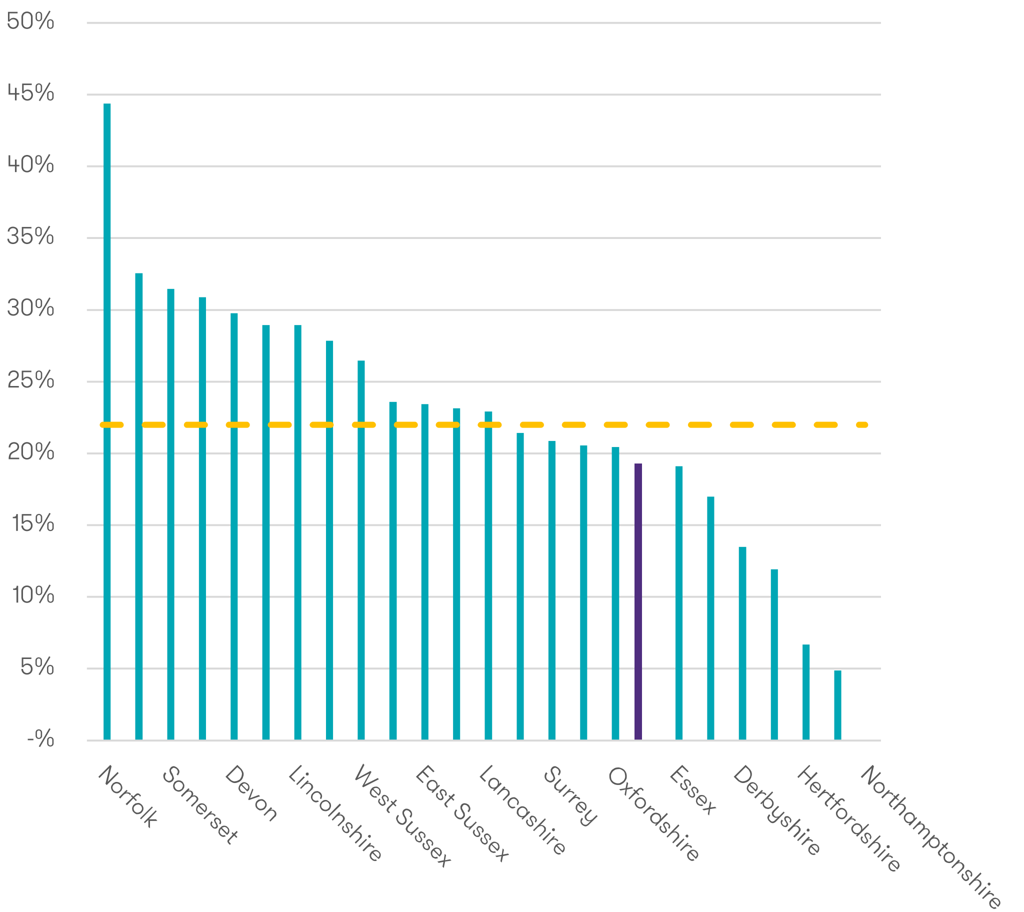
The Council's long term borrowings as a proportion of long term assets are not excessive when compared with other Councils (see Figure 1), however the overall size of the Capital Programme is high (expected to be £1,624 million over ten years from 1 April 2023), and the total cost of financing and servicing the programme therefore remains an issue for the Council. In recent years the Council has, to a degree, benefitted from internal borrowing to fund the capital programme but calls on reserves and changes in the wider economic climate may make this harder going forward. It will be important to maintain discipline around the financial and operational cost of the capital programme if the Council is to reduce pressure on the revenue account and reserves in future years. The likely future increases in the cost of borrowing is a key facto that members need to consider in the medium term financial strategy.

Asset rationalisation rather than capital addition is expected to be a high strategic priority for the Council in the coming years. The Council's need for an efficient, adequate and appropriate estate which maximises growth potential and minimises carbon footprint was first identified in the Asset Management Strategy for 2018 – 2023. In 2020-21, the Council's Strategic Reset Programme included a review of Future Assets which covered three workstreams: Office (including the Strategic Headquarters in Maidstone); Communities (including sports, youth and library facilities); and specialist assets (including waste, highways depots, and gypsy and traveller sites). During 2021-22, the Council spent some £4 million on the Future Assets review. At the time of writing this report, the administration had still to make a decision on Strategic Headquarters but a consultation on community assets was scheduled to commence in January 2023. The Council has taken–steps to engage legal and professional advice and has estimated that backlog capital expenditure of some £165 million (compared to a budget of £30 million) could be saved by asset rationalisation.

Figure 1:

Long-term borrowing as a proportion of long term assets (%), comparing 24 English County Councils on 31 March 2022.

Source: Unaudited financial statements 2021-22 (Kent shown in purple)



FS5: Manages risk to financial resilience

Kent County Council identified in the February 2022 Section 25 Assurance Statement for 2022-23 that its reserves were *'adequate but not generous'* and require *'continuous monitoring given the risks the Council is facing'.* Our own benchmarking analysis supports this assessment. Comparing year end 31 March 2022 reserves data for 24 county councils, we identified that whilst Kent's reserves were not the lowest, they were lower than average for that date, as Figures 2 and 3 show.

The overspends in 2022-23 represent a significant risk to the reserves. The Council's February 2023 Section 25 Assurance Statement for 2023-24 identifies that latest forecasts for 31 March 2023 estimate reserves will be some £99 million lower than they were on 31 March 2022. The section 25 report concluded in February 2023 that *"if the forecast outturn for 2022-23 is not brought down to a level that can be covered by reserves set aside for budget risks and stabilisation this poses a significant risk to the adequacy of reserves and thus the Council's financial resilience".* Closing the High Needs deficit will also represent a significant demand for reserves. The Council needs to make provision to repay a proportion of the accumulated deficit from General Fund reserves as part of the Safety Valve agreement with the Department for Education. Currently there is no specific provision within General Fund reserves for this repayment. At the time of writing this report, High Needs Safety Valve contributions were expected to require significant input from the reserves over a period of several years.

Standards around reporting a medium term financial plan have improved at the Council. For 2020-23 and 2021-24, no formal Medium Term Financial Strategy was prepared as there was considered to be too much uncertainty. Instead, a two year 'Financial Outlook' document was prepared in February 2021. However, by February 2022, a full three year 'Revenue and Financing Plan' was prepared for 2022 - 2025. At the time it was prepared, the three year plan identified savings and income requirements of £38 million in 2022-23; £36 million in 2023-24; and £26 million in 2024-25. There was very little headroom (or margin for error) in the budget – just £11.8 million in 2024-25 and no supporting sensitivity or scenario analysis. As we have seen, the savings and income requirement for 2023-24 increased afterwards to £86 million; inflation has been high; and demand for services continues to grow. Sensitivity and scenario analysis may help the Council plan effectively for worst case (and best case) scenarios. A draft medium term financial plan for the three years 2023 – 2026 was prepared in January 2023 but this also does not include sensitivity or scenario analysis. We note an Improvement Recommendation for future years on Page 16 of this report.

Figure 2:

Reserves as a proportion of net cost of services (%), comparing 24 English County Councils on 31 March 2022.

Source: Unaudited financial statements 2021-22 (Kent shown in blue).

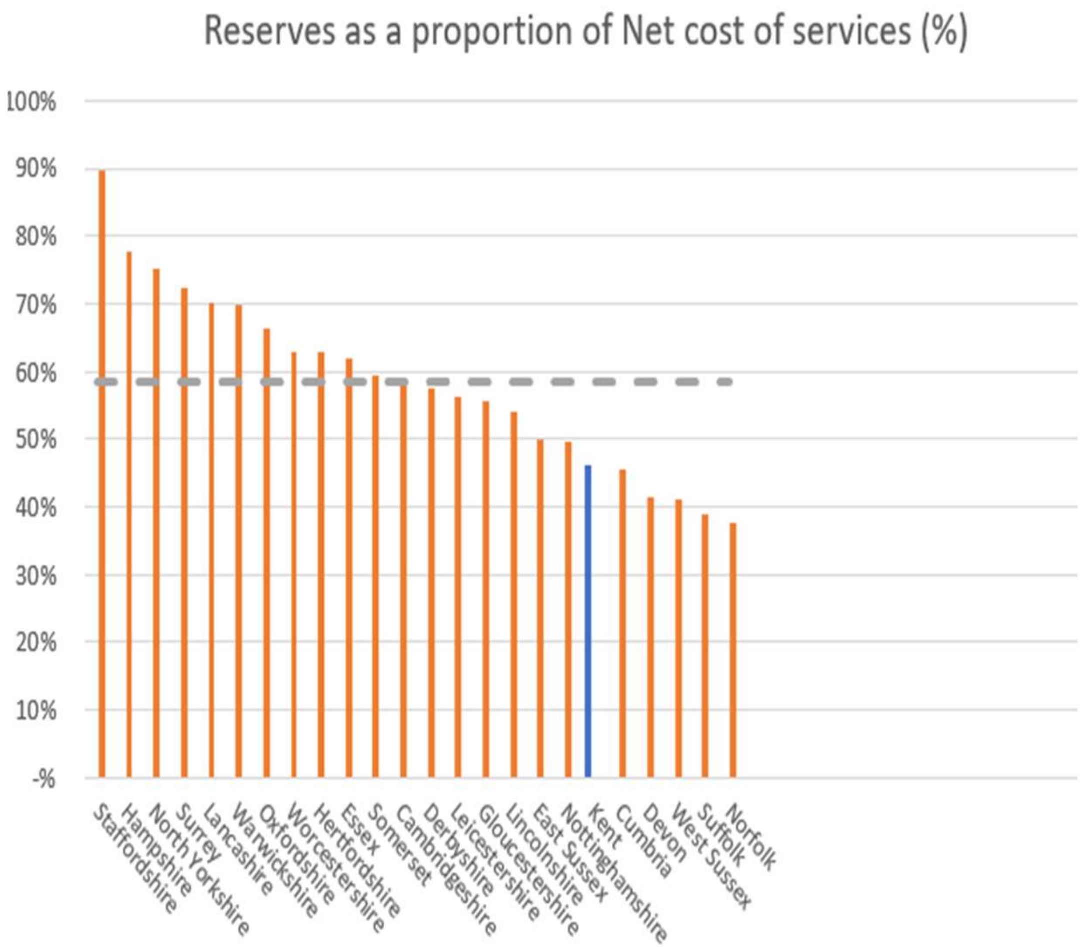
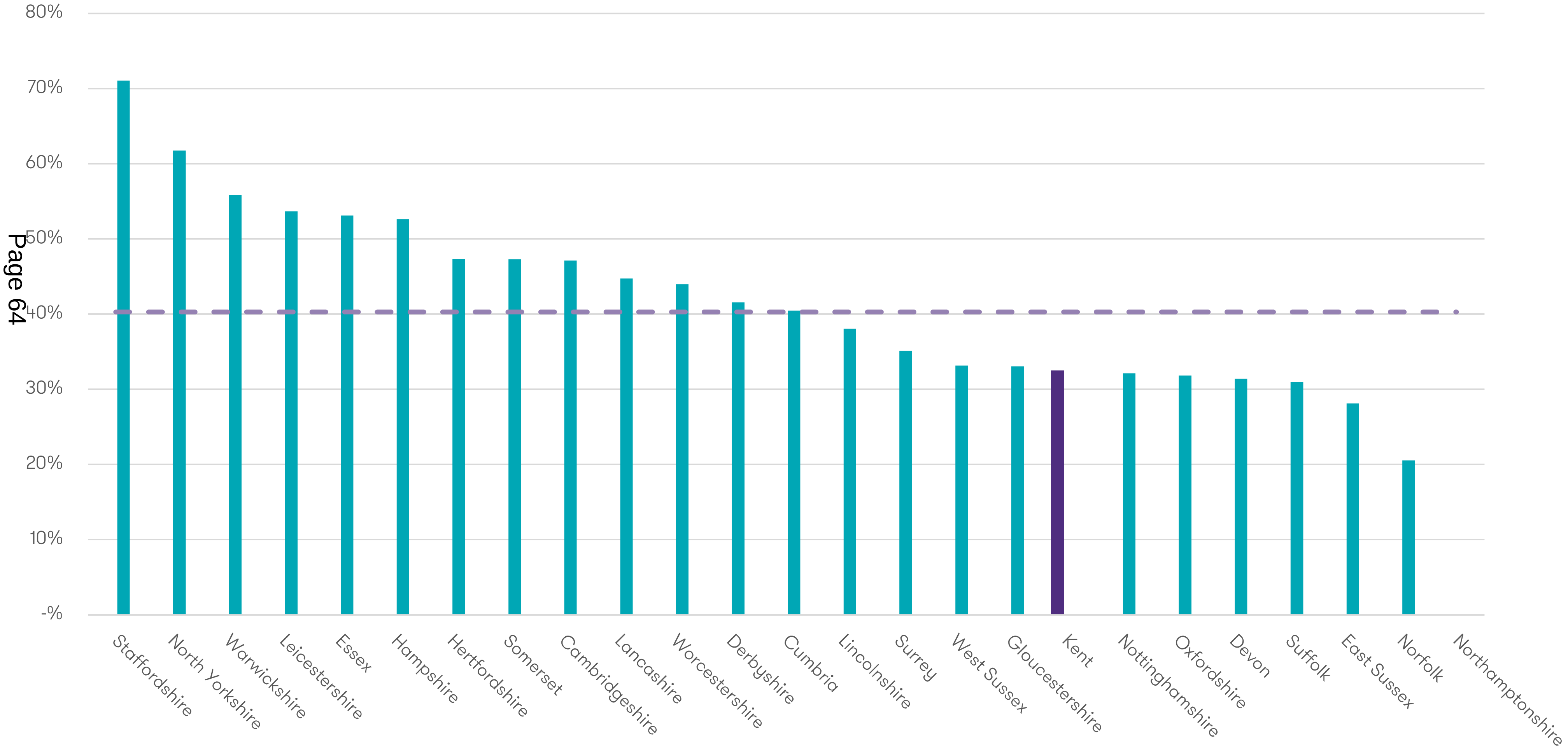


Figure 3:

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%), comparing 24 English County Councils on 31 March 2022.

Source: Unaudited financial statements 2021-22 (Kent shown in purple).



Key recommendation

Financial sustainability – spending control

Key Recommendation 1

Steps need to be taken by the Council to control expenditure. This is necessary now to avoid the future s114 notice that the Council predicted to the Prime Minister. The Council will need to be realistic about the capacity available to support delivery of the savings. The administration will need to prioritise and consult and will need to be able to communicate how and what it prioritised. Some very difficult decisions will need to be made by the ruling administration to reduce expenditure and in some cases withdraw or pare back existing services.

Why/impact

The Council faces a substantial savings requirement for 2023-24 of £86 million in order to deliver a balanced budget against the backdrop of a significant forecast overspend in 2022-23. The Leader of the Council joined the Leader of Hampshire Council in a November 2022 letter to the Prime Minister, Chancellor of Exchequer and Secretary of State outlining that the amount they could raise from council tax and business rates would barely cover normal inflationary pressures, leaving no funding to cover expected significant ongoing growth in adult and children's social care services, which if left unaddressed would lead to a s114 notice.

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Auditor judgement

In the absence of additional government funding, which is unlikely in the current economic climate, difficult decisions about reduced spending will be necessary in the near term. Effective consultation and communication with residents about how and what the ruling administration prioritises will be necessary.

Summary findings

The Council faces an £86 million savings requirement in 2023-24. Strong steps and focus to control costs will be needed to maintain the council's financial sustainability.

Management Comments

The council has introduced a range of measures to control expenditure and to minimise non-essential expenditure as much as possible. The management action being taken to control and reduce expenditure is formally reported in the quarterly finance monitoring report that is presented to Cabinet. The progress on delivery of the savings agreed by County Council are also formally reported to Cabinet in the quarterly report. In recognition of the challenging financial situation and the need to contain growth and identify savings to ensure financial sustainability over the medium term, the 2024-25 and MTFP budget process will commence in April 2023.

The range of recommendations that external auditors can make is explained in Appendix B.

Key recommendation

Financial sustainability – Special Educational Needs and Disability (SEND)

Key Recommendation 2	The Council should take a holistic approach towards managing SEND demand and SEND financial management issues in Kent. This will involve the ruling administration making some difficult decisions.
Why/impact	During 2021-22, Kent County Councils' Schools Delegated Budgets overspent by £41.2 million. Within the Schools' line of accounts, the High Needs deficit increased from £51M at the start of 2021-22 to £97M by the end of 2021-22. The Council also spends around £50 million per annum on transporting children including those with SEND to school. As the Council has already recognised, the children with needs of today may become the Council's adult service users of the future.
Auditor judgement	The Council is working with DFE to agree a recovery package for the High Needs deficit. In return for a proportion of the deficit being written off by DFE, the Council will need to provide funding to write down the rest of the deficit by the end of 2027-28 and will need to make the service more financially sustainable. Wider impacts also need to be considered by the Council. For example, re-procuring the transport service for a net saving of £1 million may in the long term be less impactful than working with school and parent stakeholders to influence expectations, behaviour and demand.
Summary findings	There is still a growing deficit in High Needs spending per annum, leading to high transport costs and, in the future, potentially even more strain on adult social care costs.
Management Comments	The oversight and management of the SEND agenda, both service transformation and fiscal prudence are now a whole Council priority. This is being delivered through the internal SEND Transformation Board, which reports to the Council's Strategic Reset Programme Board. Cross Council expertise and resource has been committed to provide advice, support and oversight, ensuring a holistic approach to the demand and financial SEND management issues.

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The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation

Financial sustainability – incremental cost data

Improvement Recommendation 1	The Council should consider capturing and reporting the additional costs of public health; safeguarding; schooling; and counter terrorism related to Home Office asylum seeker sites.
Why/Impact	The cost data could add weight to representations to government.
Auditor judgement	Scope for using financial data as a tool for promoting Kent's interests.
Summary findings	Internal reporting within the Council on Home Office site impacts tends to focus on actions and outputs rather than quantifying what it costs the Council to deal with the statutory duties around the sites. Many of the Council's additional costs are sunk in staff time. The Council has little financial data summarising exactly what the additional costs are.
Management Comments	The additional cost information relating to the Home Office Asylum Seeker sites that can be separately identified will be captured and reported.

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The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation

Financial sustainability – sensitivity analysis

Improvement Recommendation 2	Sensitivity analysis or scenario testing should be presented to Cabinet and published alongside the medium term financial strategy for 2022-2026 or with future medium term financial plans.
Why/impact	The headroom in the Council's budget is very low and there is little margin for error. Inflationary, demand and High Needs pressures on the budget are very high. Sensitivity analysis may help to sharpen the focus on risk in the medium-term financial plan.
Auditor judgement	Sensitivity and scenario analysis in the medium term financial plan may help the Council plan effectively for worst case (and best case) scenarios.
Summary findings	Industry best practice (to include scenario testing within MTFS) not followed.
Management Comments	The approach to financial planning is reviewed and improved on a regular basis. AS part of the planned development for 2024-25, Sensitivity analysis/scenario testing will form part of the medium term financial planning process.

The range of recommendations that external auditors can make is explained in Appendix B.

Governance

We considered how the Council:

- Ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- Monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.
- Monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- Approaches and carries out its annual budget setting process
- Ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships

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GOV1: Makes properly informed decisions

The Council

Kent County Council has both formal and informal governance arrangements. The informal arrangements principally comprise a Cabinet Members meeting on a weekly basis and a Corporate Board (Cabinet Members and the Corporate Management Team) meeting on a monthly basis, with a range of other service or topic specific Boards. Neither the Cabinet Members meeting, nor the Corporate Board have decision-making powers under the Council's Constitution and their meetings are not recorded publicly. However, our 2020-21 Annual Auditors Report noted that the two groups were in a position to influence decision-making as they played leading roles in discussion leading up to decisions.

The Council's Monitoring Officer recommended a review of informal practices and the introduction of new practices in the Annual Governance Statements both for 2019-20 and 2020-21. Our Annual Auditors Report for 2020-21 (April 2022) also recommended that the Council should take action around informal governance and decision-making, as the recommendations made by the Monitoring Officer had not, by April 2022, been actioned. In response, in May 2022 the Council's constitution was amended to recognise that informal governance groups do meet. Codification of the role of these groups is expected to be added to the constitution during 2023.

Our audit for 2020-21 did not specifically identify any instances of unconstitutional or non-statutory decision-making during 2020-21 despite the informal governance arrangements. However, unconstitutional decision-making during 2021-22 has come to our attention. As highlighted earlier in this report, the Council decided during 2021-22 to re-procure SEND school transport services. The services cost the Council some £50 million per annum and a savings opportunity (for a final net saving of £1 million per annum) had been identified. Under the terms of the Council's constitution, this should have been a key decision – requiring consultation and risk and equalities impacts assessments. The key decision process in place in the Council was by-passed and a shorter process for due diligence was used. A short timeframe was also used for the re-procurement. The re-procurement proved complex and the timeframe allowed was inadequate (two months). On 14 February 2022, several hundred children were left without school transport, but the Council was unable to confirm the definitive number of children affected.

Had the Council's key decision process been followed, the re-procurement decision would have been subject to greater scrutiny. The Council's Internal Auditors reported in a Lessons Learnt report in September 2022 that *'if governance and processes relating to Key Decisions and associated Equality Impact Assessment,* *Project Management and the management of risk had been followed and raised with all appropriate parties and sections within the Council, then the impact upon children, parents and carers may not have occurred'.*

Internal Audit concluded that *'there now needs to be an increased emphasis upon a culture which ensures the consistent delivery of good governance at Kent County Council'.*

After the Internal Audit SEND transport review concluded and further assurance activity was completed, a revised version of the Annual Governance Statement was provided within Governance and Audit Committee papers. The revised version included a Monitoring Officer statement. The revised Annual Governance Statement makes clear that members and officers should carefully ensure that all relevant information and the full range of advice is in place and considered before taking decisions for which they are accountable. The statement also clearly sets out that the Council needs to improve the way in which scrutiny of these decisions and activity is undertaken.

The Annual Governance Statement is a comprehensive and honest account of the key issues that need to be addressed. As an example, the Monitoring Officer reported that a range of issues and complaints had been raised during 2021-22 regarding the experience and feeling of safety for all members and officers at meetings of the Council and its Committees. The Monitoring Officer also reported that the administration had diverted resources to non-core activities, despite the challenging financial situation and that *"Member behaviour and prioritisation in this regard must also be reviewed to avoid the challenges faced in Liverpool, Northamptonshire and elsewhere".*

Going forward, the ruling administration now faces exceptionally difficult decisions around spending and cost savings. Strong governance will be more important than ever. We make a Key Recommendation on page 21 of this report that supports what the Monitoring Officer has set out in the Annual Governance Statement that decision-making arrangements need to be strengthened; that members and officers ensure they understand their roles; and that issues and complaints raised with the Monitoring Officer during 2021-22 feed into good practice training for the future. We would commend members to read the recent Public Interest Report on Cheshire East which explores some of the tensions between officers and member roles in some detail.

The Pension Fund

In response to 16 Action Plan recommendations made by Internal Audit in December 2019 and an additional 108 recommendations made in an independent review by Barnet Waddingham commissioned by the Council in 2021, the Council took steps during 2021-22 to strengthen arrangements for decision-making for the Pension Fund. The renamed Pension Fund Committee was introduced to replace the Pension Superannuation Committee. Membership of the Pension Fund Committee is wider than it had been for the predecessor Committee. Membership is made up of 11 members from the County Council; three members from districts; one member from Medway Council; and four non-voting members (to include a trade union representative; a member representative; a pensioner representative; and one other representative nominated by an outside body such as police or fire services). Joint membership of the Pension Fund Committee and the supporting Pension Board is prohibited.

Decision-making arrangements for the Pension Fund Committee are now set out in the Constitution. We note that the Internal Audit and Barnet Waddingham reviews had been carried out after the Council lost some £237 million when dealing in the Woodford Fund was suspended in June 2019. The Council's net loss from the Woodford Fund after disbursements is currently expected to be £63.7 million. The recommendations from both reviews have been implemented and strengthened arrangements for pension fund governance are in place.

GOV2: Monitors and ensures appropriate standards

Steps have been taken by the Council since the end of 2021-22 to strengthen arrangements around managerial leadership, accountability and standards. In July 2022, the Chief Executive Officer (CEO) and Deputy Chief Executive Officer posts were established. The Corporate Directors now report and are directly accountable to the CEO, who with the support of the Monitoring Officer and Section 151 officer is putting in place refreshed operational arrangements to improve oversight and accountability.

The Section 151 Officer and Monitoring Officer also jointly commissioned an independent review by CIPFA of its Governance and Audit Committee. CIPFA's review focused on the operating effectiveness of the Governance and Audit Committee and concluded in July 2022 that the Committee had demonstrated and continued to demonstrate some good practices to build on. However, the review also highlighted that Committee questions sometimes *'became political or seemed to be asked to make a point about a person or activity'*. CIPFA noted that *'inappropriately political behaviour in meetings'* had been observed. CIPFA made a series of recommendations including around strengthened Terms of Reference for the Committee, which have been accepted by the Committee. We welcome this recommendation and will review progress as part of our work for 2022-23.

As already noted in this report, changes to the constitution are also ongoing to strengthen codification around governance arrangements. With the changes being made to managerial leadership structures; the limited resources available; and the need to focus on tackling the high value deficits, members will need to be focused on the strategic challenges facing the Council.

GOV3: Monitors and assesses risk; gaining assurance over internal control; and arrangements to prevent and detect fraud

The Council

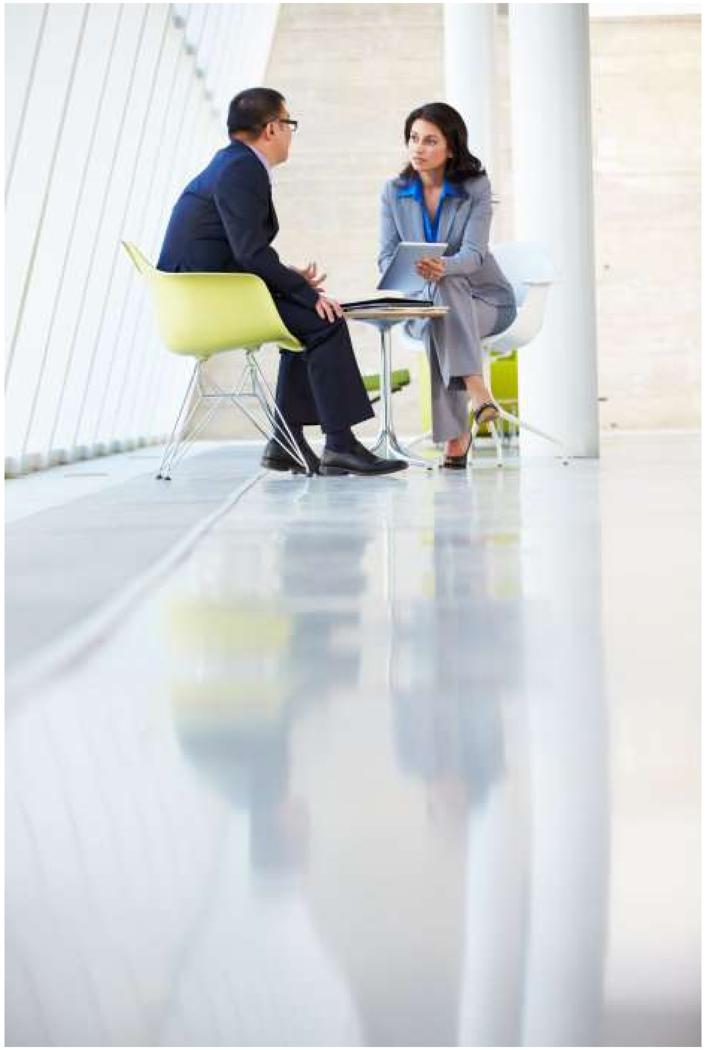
Kent County Council had effective arrangements in 2021-22 for monitoring and assessing risk. The Council also had an effective Internal Audit service in place. Furthermore, a new Anti-Fraud and Corruption Strategy was introduced in January 2022 (having last been updated in 2016).

Our Annual Auditors Report for 2020-21 noted that we would review the adequacy of Internal Audit resourcing during 2021-22. Internal Audit was re-structured during 2021-22 and a new IT internal auditor was recruited. However, additional demand on the Internal Audit service was significant during 2021-22 and it was therefore still difficult to complete the full programme of planned work. At least three weeks of Internal Audit team time was re-directed to investigating circumstances in February 2022 around the re-procurement of the SEND transport service. This disrupted scheduled work on other areas.

Although overall Internal Audit provided Adequate Assurance over the Council's controls in 2021-22, the strength of this Assurance is weaker than it was for 2020-21. 22% of 2021-22 internal audit reports had limited assurance compared to 18% of the reports for 2020-21. 4% of 2021-22 internal audit reports had No Assurance whereas none of the 2020-21 reports provided No Assurance. We also note that by 31 March 2022, only 41% of all Internal Audit Actions (Issues) had been implemented. Some 57% were still showing as In Progress. With a slight decline in control standards in 2021-22 compared to 2020-21, it will be important that Actions from internal audit reports are taken seriously and addressed on a timely basis. The Governance and Audit Committee should review Internal Audit Issues 'In Progress' at each meeting and officers should be accountable for the pace of response to recommendations and for the implementation of recommendations. We note an Improvement Recommendation on page 22 of this report.

<u>Subsidiary companies</u>

The Council has a Shareholder Board which oversees subsidiary companies and which maintains regular liaison with the companies on risk management through the year. Council members and officers do not sit on the subsidiary company boards but the Council does provide the subsidiaries with their internal audit service and the Council has access to all company meeting minutes. The subsidiaries also each provide the Council with a form of year end Annual Governance Statement outlining the risks for their individual company. From these processes, the Council is able to maintain effective oversight and understanding of risks being managed by its subsidiary companies without compromising the arms length relationship it has with those companies. From our review of company Annual Governance Statements for 2021-22 we did not identify risks that were material to the Council.



GOV4: Approaches and carries out an annual budget setting process

GOV5: Ensures budgetary control

Notwithstanding the difficulty in anticipating rising costs and demand for services, Kent County Council does have an effective <u>process</u> for ensuring that a new Revenue and Capital budget is set annually. When the Council prepared the Revenue Budget for 2022-23 (prepared during 2021-22), a 'prior year cost plus estimated change' approach was used. The Council plans to more closely align financial budgeting with performance target setting from 2024-25. The Council plans to move to Outcomes Based Budgeting by 2025-26.

The Council also has effective <u>processes</u> for budgetary control. A range of comprehensive information is included in Finance Reports to Cabinet, over and above Revenue and Capital variances. Enhancements made to data since April 2021 includer more regular savings and reserves monitoring data since September 2021; an update to Cabinet on the cost of living crisis for Q1 in 2022-23; and a summary of planned Actions to Reduce the Deficit for Cabinet for Q2 of 2022-23.

Although the Council faces the unprecedented overspends and £86 million savings requirement outlined earlier in this report, the budget <u>processes</u> in place have at least enabled the Council to clearly understand its problems. Harnessing the data to strengthen communication with stakeholders around the difficult decisions that now need to be made may help the Council with the effective communication needed to manage expectations and demand from residents going forward.

Key recommendation

Governance – decision-making and member/officer relations

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Key Recommendation 3	Compliance with the Council's decision-making arrangements needs to be strengthened. Members and officers should ensure they understand their roles and comply with the council's governance arrangements. Issues and complaints raised with the Monitoring Officer during 2021-22 should be addressed and feed into good practice training for the future.
Why/impact	Under the terms of the Council's constitution, this should have been a key decision – requiring consultation and risk and equalities ~~impacts~~ assessments. The key decision process was by-passed. The final Annual Governance Statement for 2021-22 is expected to highlight the importance of officer and member training and of appropriate professional advice being obtained to support decisions. The final Annual Governance Statement is also expected to highlight that a range of issues and complaints were raised with the Monitoring Officer during 2021-22 regarding the experience and feeling of safety for all members and officers at meetings of the Council and its Committees.
Auditor judgement	Non-compliance with statutory and constitutional decision-making standards during 2021-22 has been noted. There have also been issues and complaints around behaviour in meetings. Members should take note of the issues raised in the recent Cheshire East Public Interest Report.
Summary findings	Poor standards of governance applied during the year in the decision regarding the re-procurement of SEND transport provision.
Management Comments	The recommendation notes the raising of this issue by the Monitoring Officer and this is welcomed. The AGS sets out an aggressive programme of activity for delivery over the first half of 2023/24 and work has already started in relation to the roles and compliance with the governance. Ultimately the success of this will be linked to the behaviours of the individual Members and Officers and this will be expressly tested through further updates to the AGS process reviewing 2022/23 that will be delivered in Q1 of 2023/24 and in future years.

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation

Governance

Improvement Recommendation 3	The Governance and Audit Committee should review Internal Audit Issues 'In Progress' at each meeting and officers should be accountable for the pace of response to recommendations and for the implementation of recommendations. The number of issues in progress should be managed down or, where this is not possible, the reasons why should be understood.
Why/impact	By 31 March 2022, only 41% of all Internal Audit Actions had been implemented. Some 57% were still showing as In Progress.
Auditor judgement	With a slight decline in control standards in 2021-22 compared to 2020-21, it will be important that Issues from internal audit reports are taken seriously and addressed on a timely basis.
Summary findings	Delays to implementing Internal Audit recommendations.
Management Comments	CIPFA have recently reviewed the effectiveness of the Governance and Audit Committee and made a number of recommendations that have been accepted by the Committee. One of the recommendations relates to the consideration of Internal Audit reports by the Committee and this will be taken into account as part of the implementation of the recommendations

The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness

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We considered how the Council:

- Uses financial and performance information to assess performance to identify areas for improvement
- Evaluates the services it provides to assess performance and identify areas for improvement
- Ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- Where it commissions or procures services assesses whether it is realising the expected benefits

EEE1: Uses financial and performance information to assess performance and identify areas for improvement

EEE2: Evaluates services to assess performance and identify areas for improvement

Kent County Council has effective performance dashboard and corporate key performance indicator processes in place for internal monitoring and assessing of performance. There are also plans to link performance indicator targets and financial budgeting more closely and to adopt Outcomes Based Budgeting from 2024-25 and 2025-26 onwards.

Responding to external assessment of performance is weaker, at least for the Children, Young People and Education service's SEND arrangements. On 9 November 2022, Ofsted and the Care Quality Commission published their joint findings from an inspection of SEND services in September 2022. The inspection reviewed the Council's progress against nine areas of significant weakness in the service which Ofsted and CQC had identified in March 2019.

Ofsted and CQC reported that the Council had not made sufficient progress in addressing any of the significant weaknesses identified in 2019 (see Figure 4, Page 24) and that it would be for DfE and NHS England to determine the next steps, which may include the Secretary of State using powers of intervention.

Ofsted and CQC reported that '*Parental confidence in the local area's ability to meet their children's needs is at an all-time low'*. We note that almost 2,000 parents had shared their views with the 2022 inspectors.

By contrast, other areas of the Childrens, Young People and Education service have been very successful, broadly over the same period, in using external information to assess performance and identify areas for improvement.

An Ofsted inspection in 2017 concluded that the Council's Children Service was Good but by May 2022, Ofsted concluded that the service was 'Outstanding'. The inspection report noted that '*Senior leaders have taken effective action in the areas identified at the last inspection in 2017…..Progress is evident'*.

We noted earlier in this report that there are significant weaknesses in the financial sustainability of the Council's High Needs services. During 2021-22, Kent County Councils' Schools Delegated Budgets overspent by £41.2 million and the High Needs deficit increased from £51M at the start of 2021-22 to £97M by the end of 2021-22. We also noted that to some extent, it is the high volume of demand which drives the financial pressure. The Council estimates that the number of children in Kent in receipt of an EHCP is on average 20% higher than anywhere else in England.

At the time of writing this report, forward-looking work was underway within the Childrens, Young People and Education service to explore ways of reducing demand for High Needs support, in particular at 11+ and 16+ transition points. This involves working with parent forums and other partners. Work is also underway to explore more cost-effective strategies with schools for meeting demand. Financially, the Council's ambition is that funding will match costs by 2027-28.

For 2021-22 we conclude that there were significant weaknesses within the SEND arrangements for learning from performance data; evaluating services; and for providing an adequate service. However, we note that if the overall volume of demand reduces in the coming years and engagement with schools parent forums improves, the actual and perceived quality of service provision and the Council's ability to respond to performance concerns may also improve. We note a Key Recommendation at Page 26 of this report.

Figure 4: Significant weaknesses in Kent County Council SEND practice, 2019
Source: Ofsted and CQC Report, November 2022

Significant weaknesses in Kent County Council SEND practice identified by Ofsted and CQC in March 2019 and September 2022

1. A widely held concern of parents that the local area is not able, or in some cases not willing, to meet their children's needs.
2. A variable quality of provision and commitment to inclusion in schools, and the lack of willingness of some schools to accommodate children and young people with SEND.
3. That parents and carers have a limited role in reviewing and designing services for children and young people with SEND.
4. An inability of current joint commissioning arrangements to address known gaps and eliminate longstanding weaknesses in the services for children and young people with SEND.
5. Poor standards achieved, and progress made, by too many children and young people with SEND.
6. The inconsistent quality of the EHC process; a lack of up-to-date assessments and limited contributions from health and care professionals; and poor processes to check and review the quality of EHC plans.
7. Weak governance of SEND arrangements across the EHC system at strategic and operational level and an absence of robust action plans to address known weaknesses.
8. Unacceptable waiting times for children and young people to be seen by some health services, particularly CAMHS, tier two services, SALT, the wheelchair service, and ASD and ADHD assessment and review.
9. A lack of effective systems to review and improve outcomes for those children and young people whose progress to date has been limited by weaknesses in provision.

EEE3: Delivers within significant partnerships

Kent County Council identifies its key partners as District Councils, Medway Unitary Council, the Police, Fire and Rescue and Health services, and Job Centre + as well as a range of voluntary and community organisations. The Council has a dedicated partnerships team which maintains regular and proactive dialogue with partners. The joint letter on asylum from all local authorities to the Secretary of State in November 2022 was an example of partners co-operating to try to address common geographical problems.

EEE4: Commissioning and procurement

In addition to the partnerships overseen by the Council's partnerships team, the Council also commissions and procures around £1 billion of commercial services every year; spends around £43 million on professional fees every year; and spends around £50 million every year on externally delivered SEND school transport. With such a high value of expenditure through external commercial providers, the Council could be vulnerable to any inflation within the supplier market – as a Budget Financial Risks paper to Cabinet recognised in March 2022.

We have referred to the arrangements for the procurement of the border facility at Sevington in our Audit Findings Report. Our initial view the Council's arrangements for procuring and managing this work did not meet the requirements of the Council's own standing orders and financial regulations. We understand this matter is being further considered by Internal Audit.

Safeguarding the efficiency and effectiveness of so high a value of spend with commercial partners requires strategic planning. We note that Kent County Council does not at present have a written Commissioning or Procurement Strategy, although Framing Kent's Future (the Council's new corporate strategy for 2022-26) makes clear references to using commissioning and procurement as a vehicle for achieving net zero; environmental objectives; and efficiency in adult and children's services.

Procurement training and a good understanding of the procurement rules and processes is important. When the SEND transport service was re-procured in February 2022 and, for a period, the service failed, this was as much a failure of the service's understanding and application of the procurement process as it was of decision-making. The lessons learnt report published by the Council's Internal Auditors noted that: *'The re-tendering timeframe of the entire SEND transport network was over ambitious and treated as business-as-usual activity rather than the complex commissioning exercise that it was. Consequently, there was no support from GET's Project Management Office or Strategic Commissioning'.*

Internal Audit also reported that there had been, within the re-procurement, *'a failure of Risk Management and a general lack of awareness of risk'.*

A Government Commercial Function Improvement Assessment for the Council in July 2022 (based on a self assessment by the Council in May 2022), recommended that the Council adopt an overall commercial strategy that takes account of applicable commercial and organisational policy priorities and defines how policy objectives will be delivered. The assessment also recommended that the performance of the commercial function be measured and reported. We endorse this recommendation and add a Key Recommendation of our own (page 27) – that training around procurement strategy, policies and practice be strengthened across the Council (for staff working in service lines as much as for staff working in the commissioning and procurement team) and specialist support is signposted across the organisation so that staff commissioning and procuring complex services can recognise early when they need that support (ie, recognise risk) and know where to go to get the support once they have recognised they need it.

Key recommendation

Improving economy, efficiency and effectiveness

Key Recommendation 4	The Council should liaise with its partners to determine and agree the improvements that will be made in SEND services. An Action Plan with clear accountability and regular monitoring and reporting will be required to ensure the-findings and recommendations from the Ofsted and CQC inspection report are addressed and implemented. At the same time, looking to the longer term, strategies for managing demand and expectations will be critical if a financially sustainable service is to be secured. This will be a balancing act for the Council and careful, proactive consultation and engagement with schools, parents and other stakeholders will be necessary.
Why/impact	In November 2022 Ofsted and CQC reported that the Council had not made sufficient progress in addressing any of the significant weaknesses they identified in SEND services in 2019. This is despite year on year overspends in SEND services and a growing deficit.
Auditor judgement	Overspends have not secured actual and perceived quality of service. Findings from independent inspectors should be addressed at the earliest opportunity.
Summary findings	**Despite significant overspends, actual and perceived quality of SEND service standards falls short of regulator expectations.**
Management Comments	The Local Area SEND offer and provision is now the subject of external scrutiny and oversight through the Send Improvement and Assurance Board. This is a multi agency, independently chaired board with responsibility for progressing an accelerated improvement plan in collaboration with the DFE and NHSE improvement advisors. The board has mew ToR's, membership and an operational delivery board reporting into it.

The range of recommendations that external auditors can make is explained in Appendix B.

Key recommendation

Improving economy, efficiency and effectiveness

Key Recommendation 5	Training around procurement strategy, policies and practice should be strengthened across the Council (for staff working in service lines as much as for staff working in the commissioning and procurement team) to ensure an understanding of and compliance with the procurement rules. Specialist support should be clearly signposted across the organisation. Staff commissioning and procuring complex services should recognise and plan early when they need that support (ie, recognise risk) and know where to go to get the support once they have recognised they need it.
Why/impact	The Internal Audit SEND transport lessons learnt report highlighted that a complex re-procurement was rushed; treated as a business as usual activity; lacked expert input; and showed poor understanding of project management and risk.
Auditor judgement	Procurement training and support should be strengthened, for staff working in service lines as well as staff in the commissioning and procurement unit.
Summary findings	When the SEND transport service was re-procured in February 2022 and, for a period, the service failed, this was as much a failure of the service's understanding and application of the procurement process as it was of decision-making.
Management Comments	The Council has recently reviewed and revised "Spending the Council's Money" which is the council's contract standing orders. Once formally approved there will be a comprehensive council wide communication and engagement plan, with training and guidance provided to ensure staff undertaking procurement clearly understand their responsibilities and engage with the procurement team at the earliest opportunity.

The range of recommendations that external auditors can make is explained in Appendix B.

Opinion on the financial statements

Audit opinion on the financial statements

As of the date of writing we have not issued our opinion on the Council's financial statements because our audit work is still in progress. This work is nearing completion and we expect to issue an unqualified opinion following the Governance and Audit Committee on 28 February 2022. We expect to sign the audit opinion by 31 March 2023.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 28 February 2022 which had been updated and resubmitted to the 16 March 2023 meeting.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our work on WGA is not yet complete as we are still awaiting guidance from the NAO.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

The key issues were:

- On 25 December 2022, an amendment to the Capital and Finance regulations in respect of Infrastructure assets meant that the Authority had to revise its presentation of PPE to adhere to the new requirements.
- Our audit also identified several control issues which we communicated in our Audit Findings Report. It is important that management puts in place appropriate actions to address these.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure 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.

Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	Yes	FS – pages 13, 14 GOV – page 21 EEE – pages 26, 27
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	FS – pages 15, 16 GOV – page 22 EEE – N/A

Appendix C – Summary of recommendations for 2021-22

Page	Key Recommendation	Management Response	Status
13	Steps need to be taken by the Council to control expenditure. This is necessary now to avoid the future s114 notice that the Council predicted to the Prime Minister. The Council will need to be realistic about the capacity available to support delivery of the savings. The administration will need to prioritise and consult and will need to be able to communicate how and what it prioritised. Some very difficult decisions will need to be made by the administration to reduce expenditure and in some cases withdraw or pare back existing services.	The council has introduced a range of measures to control expenditure and to minimise non-essential expenditure as much as possible. The management action being taken to control and reduce expenditure is formally reported in the quarterly finance monitoring report that is presented to Cabinet. The progress on delivery of the savings agreed by County Council are also formally reported to Cabinet in the quarterly report. In recognition of the challenging financial situation and the need to contain growth and identify savings to ensure financial sustainability over the medium term, the 2024-25 and MTFP budget process will commence in April 2023.	
14	The Council should take a holistic approach towards managing SEND demand and SEND financial management issues in Kent. This will involve the ruling administration making some difficult decisions.	The oversight and management of the SEND agenda, both service transformation and fiscal prudence are now a whole Council priority. This is being delivered through the internal SEND Transformation Board, which reports to the Council's Strategic Reset Programme Board. Cross Council expertise and resource has been committed to provide advice, support and oversight, ensuring a holistic approach to the demand and financial SEND management issues.	

Appendix C – Summary of key recommendations for 2021-22

Page	Key Recommendation	Management Response	Status
21	Compliance with the Council's decision-making arrangements needs to be strengthened. Members and officers should ensure they understand their roles and comply with the council's governance arrangements. Issues and complaints raised with the Monitoring Officer during 2021-22 should be addressed and feed into good practice training for the future.	The recommendation notes the raising of this issue by the Monitoring Officer and this is welcomed. The AGS sets out an aggressive programme of activity for delivery over the first half of 2023/24 and work has already started in relation to the roles and compliance with the governance. Ultimately the success of this will be linked to the behaviours of the individual Members and Officers and this will be expressly tested through further updates to the AGS process reviewing 2022/23 that will be delivered in Q1 of 2023/24 and in future years.	
26	The Council should liaise with its partners to determine and agree the improvements that will be made in SEND services. An Action Plan with clear accountability and regular monitoring and reporting will be required to ensure the-findings and recommendations from the Ofsted and CQC inspection report are addressed and implemented. At the same time, looking to the longer term, strategies for managing demand and expectations will be critical if a financially sustainable service is to be secured. This will be a balancing act for the Council and careful, proactive consultation and engagement with schools, parents and other stakeholders will be necessary.	The Local Area SEND offer and provision is now the subject of external scrutiny and oversight through the Send Improvement and Assurance Board. This is a multi agency, independently chaired board with responsibility for progressing an accelerated improvement plan in collaboration with the DFE and NHSE improvement advisors. The board has mew ToR's, membership and an operational delivery board reporting into it.	

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Appendix C – Summary of key recommendations for 2021-22

Page	Key Recommendation	Management Response	Status
27	Training around procurement strategy, policies and practice should be strengthened across the Council (for staff working in service lines as much as for staff working in the commissioning and procurement team) to ensure an understanding of and compliance with the procurement rules. Specialist support should be clearly signposted across the organisation. Staff commissioning and procuring complex services should recognise and plan early when they need that support (ie, recognise risk) and know where to go to get the support once they have recognised they need it.	The Council has recently reviewed and revised "Spending the Council's Money" which is the council's contract standing orders. Once formally approved there will be a comprehensive council wide communication and engagement plan, with training and guidance provided to ensure staff undertaking procurement clearly understand their responsibilities and engage with the procurement team at the earliest opportunity.	

Appendix C – Summary of improvement recommendations for 2021-22

Page	Improvement Recommendation	Management Response	Status
15	The Council should consider capturing and reporting the additional costs of public health; safeguarding; schooling; and counter terrorism related to Home Office asylum seeker sites.	The additional cost information relating to the Home Office Asylum Seeker sites that can be separately identified will be captured and reported.	
16	Sensitivity analysis or scenario testing should be presented to Cabinet and published alongside the medium term financial strategy for 2022-2026 or with future medium term financial plans.	The approach to financial planning is reviewed and improved on a regular basis. AS part of the planned development for 2024-25, Sensitivity analysis/scenario testing will form part of the medium term financial planning process.	
22	The Governance and Audit Committee should review Internal Audit Issues In Progress at each meeting and officers should be accountable for the pace of response to recommendations and for the implementation of recommendations. The number of issues in progress should be managed down or, where this is not possible, the reasons why should be understood.	CIPFA have recently reviewed the effectiveness of the Governance and Audit Committee and made a number of recommendations that have been accepted by the Committee. One of the recommendations relates to the consideration of Internal Audit reports by the Committee and this will be taken into account as part of the implementation of the recommendations	

Appendix D – Follow-up on prior year improvement and key recommendations

Recommendation	Management Response	Findings in 2021-22	Direction of Travel/ Recommendation Closed
The January 2022 draft High Needs financial recovery plan should be finalized and implemented.	Closer working between the Finance and CYPE colleagues has already … been introduced. The role and responsibility of schools in contributing towards closing the deficit is also key … (this) will not in itself reduce the number of requests for independent and special schools or changes in EHCP assessment/ review practices. … the Government has announced that Kent is included in the Safety Valve grant programme.	The High Needs deficit continued to grow during 2021-22. The deficit increased from £51M on 1 April 2021 to £97M on 31 March 2022. The Council is in liaison with DFE to agree a recovery package. The Council's current target is to match annual costs of SEND services with funding available by 2027-28. Despite the high value costs incurred, Ofsted and CQC reported in November 2022 that there remain significant weaknesses within the Council's SEND services.	
Actions should be taken around informal governance and decision-making.	… The risk around informal governance as identified is something that has been identified by our own processes and we are already tracking this with actions that are flowing through in the current financial year and next …	Informal governance arrangements were recognized in the Council's constitution and further codification is planned. However, within the formal governance framework, key decision-making arrangements were by-passed for a SEND transport re-procurement decision. Furthermore, the final Annual Governance Statement is also expected to note that a range of issues and complaints were raised with the Monitoring Officer during 2021-22 regarding the experience and feeling of safety for all Members and Officers at meetings of the Council and its Committees.	
BW pension fund governance recommendations should be tiered or ranked to help with prioritisation and cross-checked against internal audit recommendations	A number of recommendations considered the highest priority have already been implemented. The new Head of Pensions and Treasury is overseeing the implementation of the remaining recommendations and a dedicated fixed term post has been appointed	A new Pension Fund Committee has replaced the Superannuation Fund Committee. Membership is wider and dual membership with the Pension Board is no longer allowed. Decision-making arrangements for the Pension Fund Committee are set out in the Constitution. A report to the Pension Fund Committee in December 2022 showed that 127 of the 139 Barnet Waddingham recommendations have been implemented and that all 16 Internal Audit recommendations have been implemented.	Recommendation Closed

Appendix D – Follow-up on prior year improvement and key recommendations

Recommendation	Management Response	Findings in 2021-22	Direction of Travel/ Recommendation Closed
Consideration should be given to introducing a central PMO function to help with strengthening savings oversight	Progress on the delivery of savings is now reported as part of the quarterly finance monitoring report to Cabinet……..it is not considered necessary to have a specific PMO now to co-ordinate the savings monitoring as the business-as-usual arrangements now in place are considered sufficient.	Savings reports were added to regular Cabinet Finance Reports from September 2021.	Recommendation Closed
The Council should consider whether there is scope for strengthening oversight and challenge as Summary Business Cases are developed by Directorates for Transformation Savings plans which will be included within the Medium-Term Financial Plan	The arrangements for reviewing and challenging the business cases for transformation type savings have been strengthened…….. There is a dedicated finance resource supporting the SRP undertaking the financial analysis and assessment working with the main finance team including the finance business partners to ensure the robustness of the business cases before they are considered and approved by the SRP Board.	During 2022-23, regular informal Star Chamber meetings between the Chief Executive, the s151 officer and corporate directors. These complement the formal quarterly Star Chamber meetings already in place and including the Leader and Deputy Leader of the Council. The new informal meetings are expected to be constitutionalized during 2023-24 and strengthen the Council's oversight of savings and transformation plans.	Recommendation Closed
Steps should continue to manage and reduce the trends towards year-on-year slippage in the Capital Programme	A ten-year capital programme has been approved by county council and implemented to enable more longer-term planning and profiling of the capital programme which will help reduce slippage.	A ten-year capital programme was introduced in 2022-23. Quarter 2 reporting for 2022-23 indicates some reduction in slippage.	Recommendation Closed

Appendix D – Follow-up on prior year improvement and key recommendations

Recommendation	Management Response	Findings in 2021-22	Direction of Travel/ Recommendation Closed
Budget documents should show a clear distinction between the cost of proposed statutory and discretionary services	There is an established process to identify spending on statutory and discretionary services … There is a robust system for identifying spending demands which distinguishes between unavoidable spending and spending choices which is considered more appropriate.	N/A	Recommendation Closed
The Corporate Risk Register shows Summary Profiles which for most but not all risks are supported by more detailed analysis. Gaps in detailed analysis should be filled or explained.	Any risks not supported by detailed analysis in the register are accompanied by explanations in covering reports. The dynamic nature of the risks being faced by the Council mean that different levels of detail are available at any one time.	N/A	Recommendation Closed
The Council should promote an update to the Kent Resilience Forum Community Risk Register to capture risks of disease and risks of disease and pandemic.	The KRF risk registers are regularly reviewed and updated to ensure they remain fit for purpose. The Community Risk Register is part of that review and consideration will be given to the recommendation made.	N/A	Recommendation Closed
The Council should consider inventorising partnerships so that legal status and commitments can be checked.	Consideration will be given to inventorising partnership arrangements.	The Council's Head of Strategic Partnerships oversees 14 areas of partnership with other public sector organisations in the geographic region. The Council's website lists who the Council considers its key partners to be.	Recommendation Closed

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