Kent County Council
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Ask for: Katy Reynolds
Date: 11 May 2023

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 18 MAY 2023

I am now able to enclose, for consideration at next Thursday, 18 May 2023 meeting of the Governance and Audit Committee, the following reports that were unavailable when the agenda was printed.

Yours sincerely

Benjamin Watts
General Counsel

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Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

Kent County Council
Audit Progress Report and Sector Update

May 2023

Contents

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 Authority 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.

Introduction

Your key Grant Thornton team members are:

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Senior Manager
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This paper provides the Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/en/services/public-sector-services/

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at May 2023

Financial Statements Audit

We completed our work on your County and Pension Fund financial statements for 21-22 on 31 March 2023. We reported our Auditors Annual Report for 2021/22 to your March meeting. We are presenting that report to Full Council in July 2023.

We undertook our initial planning for the 2022/23 audit in April 2023

Our planning fieldwork includes:

- Updated review of the Authority's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Understanding how the Authority makes material estimates for the financial statements
- Early work on emerging accounting issues

In June 2023 we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2023

We have completed the Pension Fund audit plan for 2022/23 and this is reported separately in your agenda.

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards.

Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

NOA have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN3 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

We anticipate issuing our Auditor's Annual Report by January 2024. We have carried out a deep dive review of aspects of your governance arrangements as part of this work and will report our findings in due course.

Progress at May 2023 (cont.)

Other areas

Meetings

We have met with senior officers on a regular basis in 2023 to discuss a range of financial and governance challenges facing the Authority. We have also met with finance officers to discuss the 2023 audit and how we approach it and develop a plan for its smooth completion.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Governance and Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2022/23 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	June 2023	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the November Governance and Audit Committee.	November 2023	Not yet due
Auditors Report This includes the opinion on your financial statements.	November 2023	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2024	Not yet due

2021/22 Audit-related Deliverables	Planned date	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	TBC	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- Grant Thornton Publications
- Insights from local government sector specialists
- Reports of interest
- Accounting and regulatory updates

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Delayed publication of audited local authority accounts

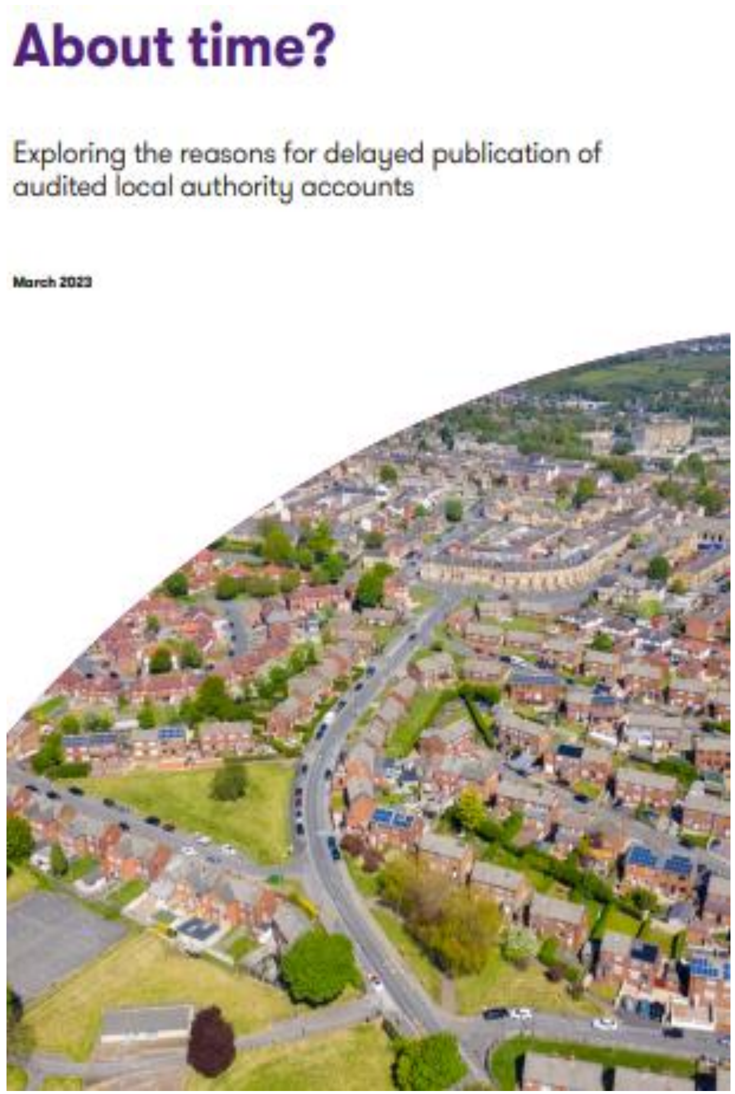
In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20



Delayed publication of audited local authority accounts

What more can be done?

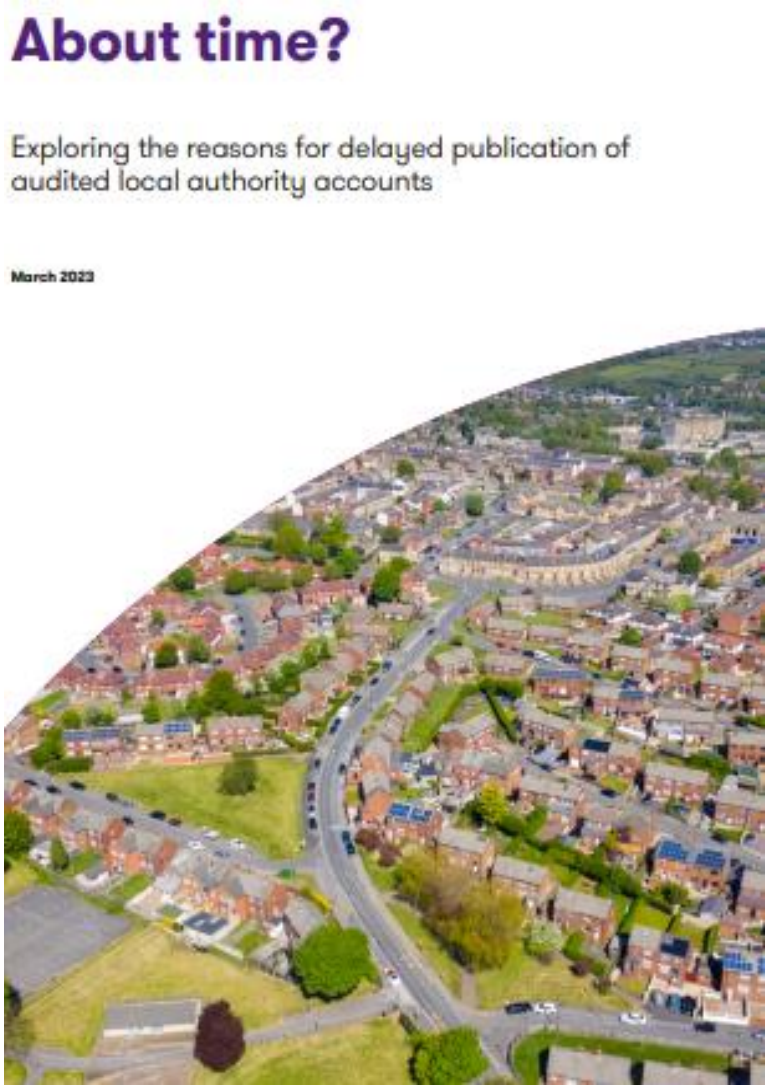
All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

Click here for full report



Local government procurement and contract management- March 2023

Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector1. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

Page 10

This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

•Strategic planning

•Internal control

•Time, technical expertise, and people

•Commercial awareness

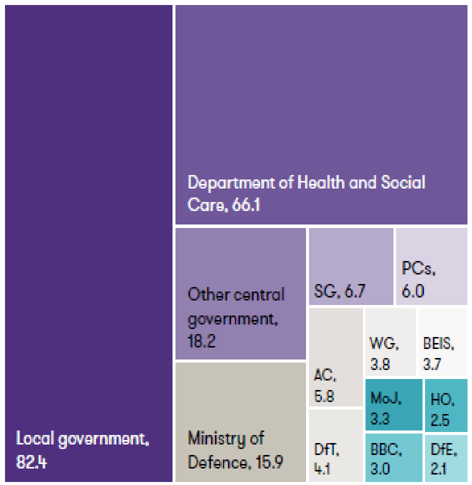
•Contract management

full report here

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

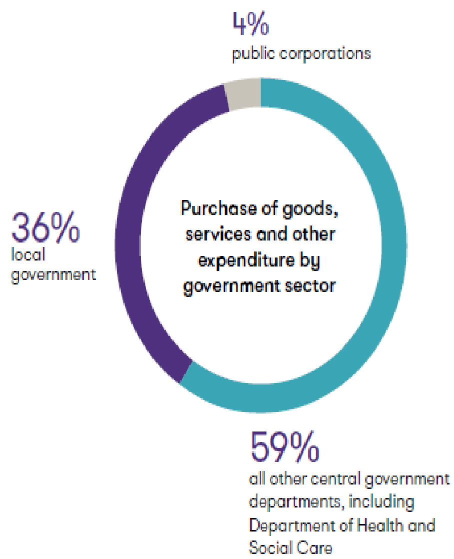
UK public spending

Public spending on goods and services, £ billions – analysis by segment and department[3]



PCs	Other Public Corporations	**AC**	Academies
DfT	Department for Transport	**MoJ**	Ministry of Justice
WG	Welsh Government	**BBC**	British Broadcasting Corporation
HO	Home Office		
DfE	Department of Education	**BEIS**	Department of Business, Industry Strategy
SG	Scottish Government		

Goods, services and other expenditure by segment[4]



1 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
2 Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021
3 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
4 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

SEND deficits kept off budgets for another three years **March 2023**

The government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12th December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before today's announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".

Grant Thornton

CIPFA

Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

"Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared. This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is **set to be broken**. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole.

CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change".

Click here for link to the article

Audit Market Developments

Financial Reporting Council Report On The Quality Of Local Audit

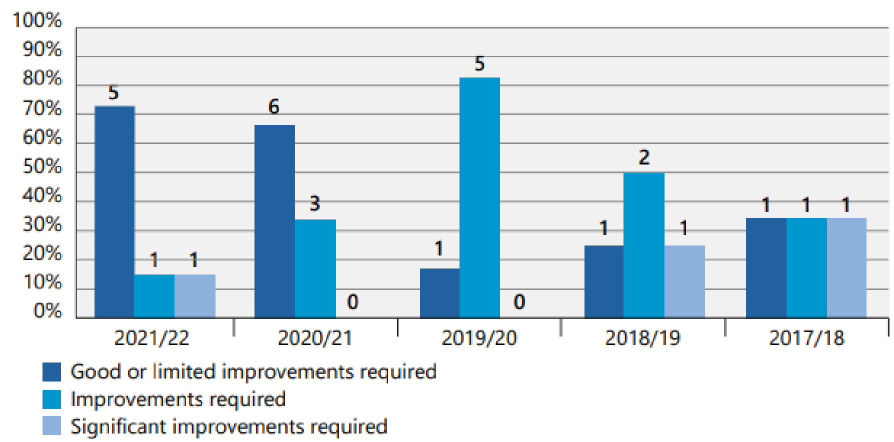
In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:

Our assessment of the quality of financial statement audits reviewed



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found here.

Financial Reporting Council

ICAEW

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found here

Public Sector Audit Appointments

Grant Thornton – Nearly 60 councils at risk of 'running out of money' next year **Nov 2022**

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts .

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will "continue to unwind through the long tail of Covid-19" with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: "Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

"Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils' financial sustainability in the face of economic instability.

"Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up."

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector's ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: "With no spending review and no fair funding review, CIPFA shares Grant Thornton's concerns about the financial sustainability of some in the sector.

"While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector."

Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA Nov 2022

In October CIPFA published this guide, stating "This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development."

CIPFA go on to state "Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA's 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

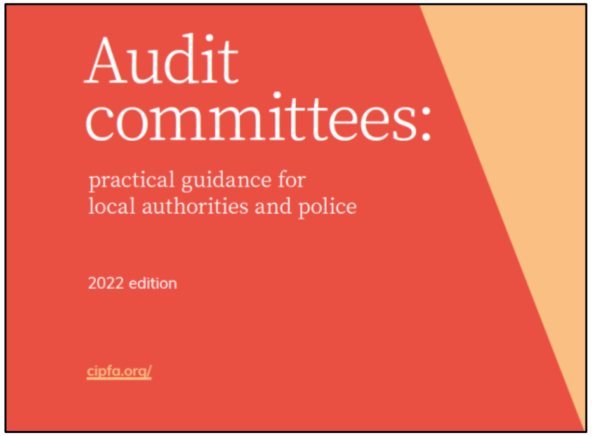
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools."

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

[Audit Committee Guidance: 2022 update | CIPFA]



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Grant Thornton

Kent Pension Fund External Audit Plan

Year ending 31 March 2023

April 2023

Contents

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Page 20

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 Pension Fund 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.

Key matters

National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment.

The pressures on household income have raised concerns that members will look at their pension contributions as a way of cutting back on their monthly costs. The cost-of-living crisis is having a detrimental impact on pension savings, with some even dipping in to their savings to supplement short-term needs and several members are also requesting early access to their pension after age 55 as a means to financially manage their commitments. The cost of living crisis makes it even more important that lowly paid workers have access to a good quality pension.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances. Again, our work will be mainly directed by the Triennial valuation report which may lead us to perform more detailed assessment of the data input in the valuation.

As set in the 21/22 Annual Report, Kent Pension Fund continues to deliver above average asset returns form a diverse portfolio of investments. Like all funds , economic uncertainty and high inflation continue to provide a wider contextual challenge to the fund.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan,{ has been agreed with management.}
- We will continue to provide you and your Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators.
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation , discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

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

Respective responsibilities

Page 23

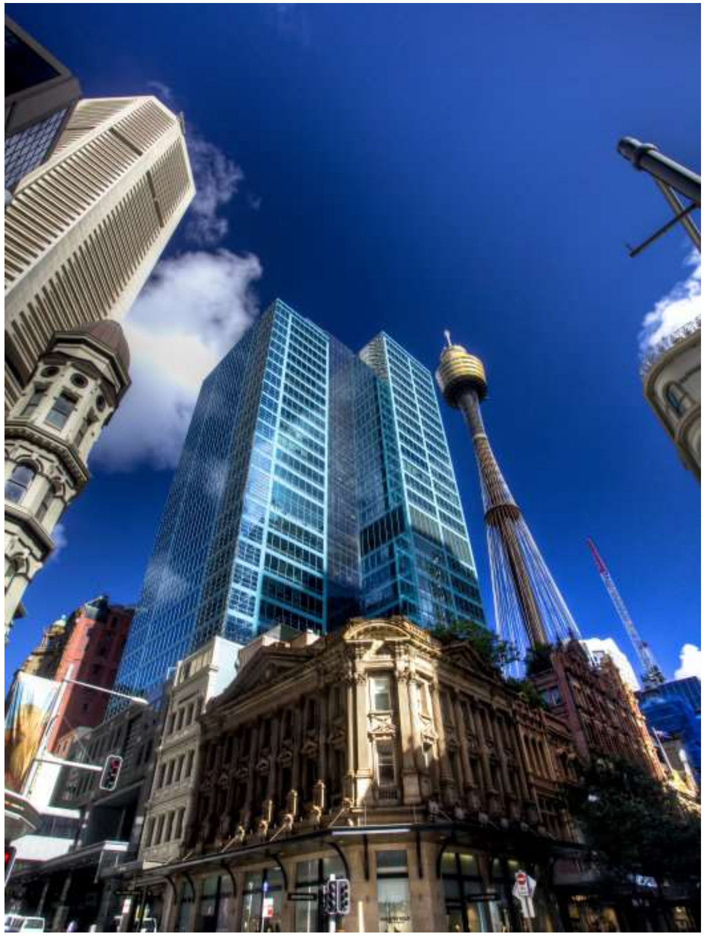
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit Committee).

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

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



Introduction and headlines

Significant risks

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

- The revenue cycle includes fraudulent transactions (rebutted)
- Management over-ride of controls
- Valuation of level 3 investments (Quarterly revaluation)
- Valuation of directly held property (Level 2, full annual revaluation and indexed monthly)

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

Page 24

Materiality

We have determined planning materiality to be £115.6m for financial statements as a whole (PY £75m) for the Pension Fund, which equates to 1.5% of your prior year gross assets as at 31 March 2022. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £5.78m (PY £3.75m).

This year we have also determined lower materiality to be £24m for Fund Account transactions (except for investment transactions, for which materiality for the financial statements as a whole will be applied).

Audit logistics

Our interim visit took place in March 2023 and our final visit will take place in July – September 2023. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £45,511 (PY: £41,000) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

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

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
ISA 240 revenue risk (rebutted)	Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: ▪ there is little incentive to manipulate revenue recognition ▪ opportunities to manipulate revenue recognition are very limited ▪ the culture and ethical frameworks of local authorities, including Kent Pension Fund, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Kent Pension Fund.	
Management over-ride 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 Fund faces external scrutiny of its stewardship of funds 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.	We will: ▪ evaluate the design effectiveness of management controls over journals ▪ analyse the journals listing and determine the criteria for selecting high risk unusual journals ▪ test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration ▪ gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence ▪ evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Page 25

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

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments (Quarterly revaluation)	The Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent 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. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in asset valuation. • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period and • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls. • where we have audited accounts for 31 December 2022 , consider year end cash roll forward procedures • as part of our assessment of key controls over hard to value investments, we will identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.

Page 26

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

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

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Directly Held Property (Level 2 Investment) (Annual revaluation)	The Fund revalues its directly held property on an annual basis, and indexed on a monthly basis with the relevant property sector index, to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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. Management have engaged the services of a valuer to estimate the current value as at December 2022. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and the custodian • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records. • Consider whether or not we need to engage an independent auditor's expert to support our valuation work.

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

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

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in Expenditure Recognition	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 an entity that is required to meet financial targets. Having considered the risk factors relevant to Kent Pension Fund 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 7 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 7.	We will: • Perform testing over post year end transactions to assess completeness of expenditure recognition. • Test a sample of expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Other matters

Other work

The Pension Fund is administered by Kent County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
  - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

whether a material uncertainty related to going concern exists; and

the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Our approach to materiality

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

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross assets as at 31/03/2023 for the Pension Fund. Materiality at the planning stage of our audit is £115.6m, which equates to 1.5% of your gross assets as at 31/03/2022. This year we have also determined lower materiality to be £24m for Fund Account transactions (except for investment transactions, for which materiality for the financial statements as a whole will be applied). A lower specific materiality has been determined for the Fund Account transactions for Kent Pension Fund audit because: - paying pensions and collecting contributions are core aspects of what Kent Pension Fund does - current pensioners and prospective pensioners will want assurance that pension payments are accurate - employers and prospective pensioners will want assurance that contributions are accurate.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. These include Senior officer remuneration and Audit Fees, as these are considered sensitive disclosures.

Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Kent Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £5.78m (PY £3.75m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the Kent Pension Fund financial statements	£115.6m	- Members and other key stakeholders (the users of the accounts) are primarily interested in the pension funds investment assets to enable current and future benefits to be paid to members
Materiality for specific transactions, balances or disclosures [Fund Account transactions, except for Investments]	£24m	- Paying pensions and collecting contributions are core aspects of what Kent Pension Fund does - current pensioners and prospective pensioners will want assurance that pension payments are accurate - employers and prospective pensioners will want assurance that contributions are accurate.

Page 32

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 17.

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

IT system	Audit area	Planned level IT audit assessment

Oracle	Financial reporting	• ITGC assessment (design effectiveness only) for the Pension Fund -hosted controls
		    • Understanding IT general controls
		    • IT environment
		    • IT general controls segregation of duties analysis
		    • Cyber Security workplan

Audit logistics and team

Planning and risk assessment
March 2023

Audit committee
May 2023

Audit Plan

Year end audit
July – September 2023

Audit committee
TBC

Audit Findings Report and Audit Opinion

Paul Dossett, Key Audit Partner

Page 34

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

Richmond N Nyarko, Manager

Richmond is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Governance and Audit Committee and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Richmond will be responsible for the delivery of our work on your arrangements in place to secure value for money.

Radoslaw Borzymowski, Audit In charge

Radoslaw will support Richmond in his work to ensure the early delivery of audit testing and agreement of accounting issues. He will lead the on-site virtual delivery of the team and be the first point of contact for the finance team. He will also carry out first reviews of the team's work.

Audited body responsibilities

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

Our requirements

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

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

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Kent Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £23,537. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Fund's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £45,511 We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

Audit fees

	Actual Fee 2020/21	Actual Fee 2021/22	Proposed fee 2022/23
Kent Pension Fund Audit	£41,000	£41,000	£45,511
Total audit fees (excluding VAT)	£41,000	£41,000	£45,511

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

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 (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. 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.

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

Other services

The following other services provided by Grant Thornton were identified

Page 37

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. This service is not subject to contingent fees.

Service	Description	Fees £	Threats	Safeguards
Audit related				
Provision of IAS 19 Assurances to Scheme Employer auditors	As Auditor of the pension fund, we are required to provide assurance to the auditors of scheduled bodies. This is an additional requirement to provide assurance for the pension fund financial statements. As this additional work is to support the IAS 19 for admitted bodies, the Pension Fund will need to determine whether to recharge the cost to these bodies. £6,000 fixed fee plus £1,100 per scheduled body letter.	TBC	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 in comparison to the total fee for the audit of £45,511 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.

Audit fees – detailed analysis

	Final fee 2021/22	Proposed fee 2022/23
Scale fee published by PSAA	£23,537	£28,850
Ongoing increases to scale fee first identified in 2020/21		
Property valuation	£2,188	£0
Investment valuation	£2,188	£2,301
Investment valuation – use of internal expect	£5,000	£5,260
Increased audit requirements of revised ISAs	£8,087	£9,100
Total audit fees (excluding VAT)	**£41,000**	**£45,511**

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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Informing the audit risk assessment for Kent Pension Fund 2022/23

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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 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 your business or any 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.

Table of Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Kent Pension Fund's external auditors and Kent Pension Fund's Governance and Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Governance and Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Governance and Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Governance and Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Governance and Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Governance and Audit Committee and supports the Governance and Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Kent Pension Fund's management. The Governance and Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	There has continued to be volatility in the markets due to economic and political issues. Whilst this will have a short term impact on asset prices, as investments valuations are marked to market the equity protection programme will help to alleviate the impact of the volatility.
2. Have you considered the appropriateness of the accounting policies adopted by Kent Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	We have considered the appropriateness of the accounting policies and have concluded that no changes are required. There have been no events or transactions that have caused us to change or adopt new accounting policies
3. Is there any use of financial instruments, including derivatives? If so, please explain	All the investments made by the Pension Fund except directly held property assets are classified as Financial Instruments. These include derivatives
4. Are you aware of any significant transactions outside the normal course of business? If so, what are they?	No

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	All of the Fund's non current assets are held at market value and there is no impairment required
6. Are you aware of any guarantee contracts? If so, please provide further details	The pension Fund holds Bonds issued by financial institutions on behalf of admission employers . There are no other guarantee contracts. Some employers have provided guarantees for admission bodies replacing the requirement for bonds.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	no
8. Other than in house solicitors, can you provide details of those solicitors utilised by Kent Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	The Council has used Invicta Law, and through them engaged legal counsel, to advise on employer admission and regulatory matters. DTZ who manage the Council's owned properties have used Invicta Law and other 3rd parties for legal advice Currently there is no open litigation or contingencies from prior years.

General Enquiries of Management

Question	Management response
9. Have any of the Kent Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Mercer provide investment advice to the Pension Fund on an ongoing basis.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	We have considered and identified a need for a credit loss provision for uncollected rental income on directly held property. The provision will be based on the investment managers' assessment of likelihood of non collection of rents.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Governance and Audit Committee and management. Management, with the oversight of the Governance and Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Governance and Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Kent Pension Fund’s external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Governance and Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Governance and Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Governance and Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Kent Pension Fund’s management.

Fraud risk assessment

Question	Management response
1. Has Kent Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Pension Fund's risk management processes link to financial reporting?	Yes and we believe the risk of fraud is very low both with regard to external as well as internal fraud. We have procedures in place for the process of investing / divesting from fund managers who also issue internal control reports. With regard to internal fraud officers comply with KCC protocols to assess and identify fraud. In particular they comply with KCC policies and procedures with regard to payment / procurement processes, employee expense and IT security. Segregation of duties, several stages of review/authorisations for payments. Pension payment fraud is managed through ATMOS, Tell us once and NFI, who review the records against the registry of deaths etc. to identify fraudulent continuing claims for benefits. No significant issues noted in this regard Budgetary control and reporting identifies any areas of significant variance for review and financial reporting
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	See above
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Kent Pension Fund as a whole, or within specific departments since 1 April 2022? If so, please provide details.	No

Fraud risk assessment

Question	Management response
4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	A copy of the risk register is reported to every meeting of the Pension Board and to the Kent Pension Fund committee.
5. Have you identified any specific fraud risks? If so, please provide details Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Kent Pension Fund where fraud is more likely to occur?	The risk register includes: In-house treasury management risks – use of counterparties, separation of duties, sufficient cover for tasks. Fraudulent payments to deceased pensioners. ATMOS, Tell us once and NFI used to monitor these payments.
6. What processes do Kent Pension Fund have in place to identify and respond to risks of fraud?	See Above

Fraud risk assessment

Question	Management response
7. How do you assess the overall control environment for Kent Pension Fund, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control? If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details	Each year an annual audit plan is developed that takes into account the risks to the Council. Internal Audit carry out a periodic review of Pension Fund risks. No areas of significant lack of control has been identified either by internal audit or by management There are internal controls in place to ensure all investment transactions are authorised and that there is separation of duties where appropriate eg re settlement of investment commitments. All reconciliations of transactions are reviewed by a separate person. There is also ongoing monitoring of employer and employee payments, quarterly reporting to the board and committee to identify and unusual variances. KCC measures re procurement / payment processes are applied. No pressure from the S151 officer, committee or board to achieve financial targets and for the override of controls.
8. Are there any areas where there is potential for misreporting? If so, please provide details	Not that we are aware of

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Fraud risk assessment

Question	Management response
9. How does Kent Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details	Officers engaged on the pension Fund are employees of Kent County Council. They are expected to comply with KCC standards and follow KCC policies which include staff code of conduct, anti-fraud corruption strategy and anti bribery policy. There is e-learning provided to support the prevention and detection of fraud. KCC has a whistle blowing policy and the counter fraud team undertakes fraud awareness presentations Staff are encouraged to raise all financial irregularities with internal audit
10. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	S151 officer has delegated authority to spend up to £1m. In practice they work with the Chair of the Committee implementing committee decisions including investment decisions. Internal controls in place, staff expected to follow KCC policies and guidelines. Segregation of duties
11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details How do you mitigate the risks associated with fraud related to related party relationships and transactions?	No Officer and member declarations are required for setting up suppliers, committee decision making. Commissioning category managers also vet new suppliers

Fraud risk assessment

Question	Management response
12. What arrangements are in place to report fraud issues and risks to the Governance and Audit Committee?	Counter fraud reporting to Governance & Audit committee at each meeting
How does the Governance and Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	Governance and Audit Committee has the ability to call in any manager to question their arrangements in addressing the risks of fraud.
What has been the outcome of these arrangements so far this year?	There have been no cases of reported fraud
13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	KCC has a whistle blowing policy and no complaints reported.
14. Have any reports been made under the Bribery Act? If so, please provide details.	None

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Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Governance and Audit Committee, is responsible for ensuring that Kent Pension Fund's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and Governance and Audit Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Kent Pension Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?	Contractual arrangements with service providers including investment managers include regulatory compliance requirements. Managers keep abreast of regulations through receiving communication from the LGA, DLUHC, Scheme Advisory Board, the Fund actuary – Barnett Waddingham, and investment consultant – Mercer. The Pensions Regulator (tPR), Pensions Ombudsman, Internal Dispute Resolution Procedure (IDRP). CIPFA Staff and member training programme eg re the Pensions Regulator code of Practice 14. Report non compliance to tPR. The annual review and update of the governance compliance statement ensures a review of compliance with LGPS regulations Management are not aware of any regulatory changes that may have an impact on the financial statements. The Head of Pensions and Treasury is a member of the Scheme Advisory Board's Investment, Engagement and Governance Sub-Committee, and as such has regular meetings with Government officials. This enables the Fund to keep well informed of any regulatory changes.
2. How is the Governance and Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	Reporting to the Pensions Board and Committee who are responsible for governance. Annual review and completion of the Governance Compliance Statement

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Slide 16

NBSF0 The Head of Pensions and Treasury is a member of the Scheme Advisory Board's Investment, Engagement and Governance Sub-Committee, and as such has meetings with Government officials. This enables the Fund to keep well informed of any regulatory changes.
Nick Buckland - ST F, 2023-03-27T08:53:58.792

Impact of laws and regulations

Question	Management response
5. What arrangements does Kent Pension Fund have in place to identify, evaluate and account for litigation or claims?	The Head of Pensions and Treasury liaises with the Pensions Administration manager to identify issues.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	None

Related Parties

Matters in relation to Related Parties

Kent Pension Fund are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Kent Pension Fund;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the pension fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the pension fund, or of any body that is a related party of the pension fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the pension fund must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

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Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Kent Pension Fund's 2021/22 financial statements? If so please summarise: • the nature of the relationship between these related parties and Kent Pension Fund • Whether Kent Pension Fund has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	None
2. What controls does Kent Pension Fund have in place to identify, account for and disclose related party transactions and relationships?	KCC procedures- Members and senior officers are required to complete declarations of interest which are reviewed during the year end accounts closure. Information is collected via the early return process by KCC
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	All such transactions and arrangements require authorisation by senior KCC officers in line with the KCC procedures. Normal KCC procurement and payment procedures apply.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	All controls on the authorisation of such transactions are in line with the KCC procedures The Financial Regulations and the delegation matrix sets out the responsibilities that are to be followed. There are the 'how to buy' and other guidance on procurement process. All payments and procurement follow the same rules.

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Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, 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 body'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.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Kent Pension Fund will no longer continue?	The fund undertakes regular cashflow monitoring and forecasting to ensure there is sufficient funds in the short term as well as long term to pay benefits as well as investment commitments. The triennial valuation exercise carried out by the actuary assesses the funding level of the fund and sets contribution levels to ensure long term affordability and sustainability. Regular monitoring of investment performance and income collection ensures that timely actions are taken to protect the financial position of the fund.
2. Are management aware of any factors which may mean for Kent Pension Fund that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	No
3. With regard to the statutory services currently provided by Kent Pension Fund, does Kent Pension Fund expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Kent Pension Fund to cease to exist?	Yes, we expect to continue to deliver services for the foreseeable future. The fund had a very strong funding position of 98% at the previous triennial valuation (2019) and has risen further to 102% in the 2022 triennial valuation.
4. Are management satisfied that the financial reporting framework permits Kent Pension Fund to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a	Yes

Slide 21

NBSF0 This funding level has now been confirmed at 102%. The wording can be revised to show that.
Nick Buckland - ST F, 2023-03-27T08:54:52.751

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Significant estimates relate to the levels 2 and 3 investments, primarily property investments and Private Equity and Infrastructure Funds. Estimates are also required in calculation of actuarial pension fund liability
2. How does the pension fund's risk management process identify and address risks relating to accounting estimates?	Having identified the areas of significant estimation involved, management ensures that the they employ the services of regulated and certified experts that are best placed to undertake the estimation following guidance, regulations and best practice. Property Valuation is undertaken by independent valuer (Colliers) and these are validated by the property manager DTZ. Private Equity and Infrastructure Funds are valued by the Fund Managers in accordance with the applicable accounting standards and laws. Internal control reports provided by these managers provide assurance on the controls on valuations in their organisation to ensure that risk related to estimates is mitigated. Pension fund liability estimates are calculated by the Actuary based on actuarial standards and LGPS regulations. The Government Actuary's Department has recently completed a section 13 report on the 2019 actuarial valuation.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Quarterly reporting provided by investment managers details the methodology of valuations as well as the breakdown of assets that make up the valuations. It also highlights changes in movements in the valuations as well as the factors behind the changes. This would include adjustments for the underlying market conditions as well as the business model and prospects for the underlying investments. This helps the fund to assess the reasonableness of the valuation which often in these cases includes estimation.
4. How do management review the outcomes of previous accounting estimates?	The outcomes of estimated valuations get validated when underlying assets are sold and the valuations are realised or if there is a sudden write down/adjustment required for valuation of assets. The information

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Management pay regard to the specialist nature of investment or liability to determine the need to apply specialised skills or knowledge related to accounting estimates
7. How does the pension fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	The level of controls required for specialist services are often dictated by professional standards and overseen by professional bodies which the service provider is expected to be members of. Management can rely on the service providers' accreditation from such professional bodies. Additionally management takes advice from its investment consultants who carry out the due diligence in respect of the activities of the service provider
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Service providers are required to produce control reports that provide independent assurance of the operation of these controls.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Review undertaken by Senior management.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes
12. How is the Audit and Governance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Review by senior management. Details are contained in the statement of accounts. Briefing sessions are provided to the Committee

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of level 3 investments	Replacement cost or Market approach depending upon stage of direct investments and applying discounts or fair value approach for partnerships	Free Cash Flows, EBITDA ,entry level valuation Developments in markets, private transactions	Management relies on information provided by fund managers who employ experts	These are separate for each underlying investments depending upon the business and applicable sector and wider market conditions	No
Valuation of Pension Liabilities	Full triennial actuarial valuation projection of future cashflows adjusted for inflation as per IAS 26 requirements, rolled forward annually with assumptions complying with IAS19 requirements	Validation of member and cash flow data, as well as updated information on interest rates, inflation and demographic data	Fund actuary Barnett Waddingham	Per IAS26, financial and demographic assumptions are used for estimation, including an evaluation of alternative assumptions, and sensitivity analysis is undertaken.	No
Valuation of property and pooled property investments	RICS valuation – global standards prepared by the royal Institute of Chartered Surveyors	Considerations of acquisitions and disposals, inspections, tenure floor areas and lettings, market conditions etc	Yes- registered under the RICS valuer Registration Scheme	These are separate for each asset in the portfolio depending upon the asset, and applicable sector and wider market conditions	No
Any other estimate					

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