

**GOVERNANCE AND AUDIT COMMITTEE**

**Thursday, 6th July, 2023**

**10.00 am**

**Council Chamber, Sessions House, County Hall,  
Maidstone**







## AGENDA

### GOVERNANCE AND AUDIT COMMITTEE

**Thursday, 6th July, 2023, at 10.00 am**  
**Council Chamber, Sessions House, County**  
**Hall, Maidstone**

Ask for: **Katy Reynolds**  
Telephone: **03000 42252**

#### **Membership (12)**

Conservative (7)	Mrs R Binks (Chairman), Mr N J D Chard, Mr D Jeffrey, Mr H Rayner, Mr R J Thomas, Mr S Webb and Vacancy
Labour (1)	Mr A Brady
Liberal Democrat (1):	Mr A J Hook
Green and Independent (1)	Mr M A J Hood
Independent Member (1)	Dr D A Horne

#### **UNRESTRICTED ITEMS**

*(During these items the meeting is likely to be open to the public)*

1. Introduction/Webcasting
  2. Apologies and Substitutes
  3. Declarations of Interest in items on the agenda for this meeting
  4. Minutes of the meeting held on 18 May 2023 (Pages 1 - 6)
  5. Governance and Audit Committee Training Programme (Pages 7 - 10)
  6. Independent Member - Term of Office Review (Pages 11 - 16)
  7. Annual Governance Statement Actions Update
- To follow.

8. Lessons to be Learned from Other Authorities (Pages 17 - 24)
9. Update on the Governance of KCC Companies (Pages 25 - 26)
10. Rolling Internal Audit Plan 23-24 (Pages 27 - 56)
11. Revised Accounting Policies (Pages 57 - 60)
12. Treasury Management Annual Outturn Report  
To follow.
13. External Audit Progress Report  
To follow.
14. Kent Pension Fund External Audit Plan 22/23 (Pages 61 - 82)
15. Other items which the Chairman decides are urgent

### **EXEMPT ITEMS**

*(At the time of preparing the agenda there were no exempt items. During any such items which may arise the meeting is likely NOT to be open to the public)*

Benjamin Watts  
General Counsel  
03000 416814

**Wednesday, 28 June 2023**

*Please note that any background documents referred to in the accompanying papers maybe inspected by arrangement with the officer responsible for preparing the relevant report.*

## KENT COUNTY COUNCIL

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### GOVERNANCE AND AUDIT COMMITTEE

MINUTES of a meeting of the Governance and Audit Committee held in the Council Chamber, Sessions House, County Hall, Maidstone on Thursday, 18 May 2023.

PRESENT: Mrs R Binks (Chairman), Mr A Brady, Mr N J D Chard, Dr D Horne, Mr M A J Hood, Mr D Jeffrey, Mr H Rayner, Mr R J Thomas and Mr S Webb

ALSO PRESENT: Mr P Oakford

IN ATTENDANCE: Ms Z Cooke (Corporate Director of Finance), Mr B Watts (General Counsel), Mr J Idle (Head of Internal Audit), Mr M Scrivener (Corporate Risk Manager), Mr D Whittle (Director of Strategy, Policy, Relationships and Corporate Assurance), Mr Paul Dossett, Miss K Reynolds (Democratic Services Officer), Mrs S Hammond (Corporate Director Children, Young People and Education), Mr S Jones (Corporate Director of Growth, Environment and Transport), Ms C Maynard (Interim Strategic Commissioner), Ms C McInnes (Director of Education), Ms L Merchant (Senior Commissioner), Ms S Bubb (Audit Manager), Ms F Smith (Audit Manager), Mr N Buckland (Head of Pensions and Treasury), Mr M Smyth (Director of Environment and Waste) and Mr R Benjamin (Internal Audit Manager), Ms S Etherton (Counter Fraud Specialist), Ms L Taylor, Ms D Chisman and Ms E Lifanje

### UNRESTRICTED ITEMS

#### **108. Apologies and Substitutes**

*(Item 2)*

Apologies for absence had been received from Mr Hook and Mr Webb. There were no substitutes present.

#### **109. Declarations of Interest in items on the agenda for this meeting**

*(Item 3)*

There were no declarations of interest.

#### **110. Minutes of the Meetings held on 28 February and 16 March 2023**

*(Item 4)*

RESOLVED that the minutes of the meeting held on 28 February 2023 and 16 March 2023 were correctly recorded and that they be signed by the Chairman.

#### **111. Review of the Council's Current Standing Orders (Spending the Council's Money)**

*(Item 5)*

1. The Interim Strategic Commissioner and the CIPS Accreditation Manager introduced the report which summarised the proposed revisions to the Council's Contract Standing Orders 'Spending the Council's Money' following a comprehensive review.
2. The Monitoring Officer highlighted that paragraph 4.3 of 'Spending the Council's Money' would be updated to read: "Confirmed breaches of SCM must be reported to the Monitoring Officer, who will report them to Internal Audit and the Governance and Audit Committee as the parties responsible for monitoring and oversight of the Council's compliance with SCM".
3. In response to questions and comments from Members it was said that:
  - a) An engagement plan had been devised with the Communications Team to make staff aware of the revised thresholds and the relevant procurement procedures required to be undertaken. It was said that Directors would also be involved in ensuring that those who are buying on behalf of the Council are aware of the expectations.
  - b) A new Continuous Improvement of Standards team would carry out periodic audits and checks across the Council to ensure compliance.
4. RESOLVED to:
  - a) Recommend the proposed amendments to section 13 of the Constitution to full Council for adoption – as attached as annex 1.
  - b) Approve the revisions to 'Spending the Council's Money' as attached as annex 2 and recommend that the revised version be presented to full Council for noting alongside the proposed amendments to the Constitution.
  - c) Delegate Authority to the Section 151 Officer to amend Spending the Council's Money in line with relevant legislative changes, with the Committee to be informed of any changes.

## **112. SEND Transport Review Management Response**

*(Item 6)*

1. The Corporate Director Growth, Environment and Transport, Corporate Director Children Young People and Education and Director Education introduced the report which had been prepared in response to a request raised by Members at the Governance and Audit Committee meeting on 16 March 2023.
2. In response to questions and comments from Members it was said that:
  - a) There was an ongoing risk analysis of market capacity for home-to-school transport in preparation for the new academic year. It was said that, whilst there was a variable economic climate, the Council had been engaging with new entrants in the market.
  - b) The smaller scale, more targeted efficiency projects included school-led transport pilots and an ongoing review of the single-occupancy home-to-school transport offers. KCC was working collaboratively with schools to review the current contracts for the school-led transport pilots to ensure consistency before this project was expanded.
  - c) The General Counsel confirmed that an update on the Annual Governance Statement for 2022-23 would be provided to the Committee at the meeting on 4<sup>th</sup> July 2023.
  - d) There was development of a memorandum of understanding of the home-to-school transport budget management between the two directorates. This

aimed to resolve any potential gaps, including that in service delivery, created by a directorate-specific approach in this area.

- e) The SEN Enquiry Hub in April 2023 had officially been launched. It was a bespoke enquiry facility and not a first point of contact for families.
3. RESOLVED to note the SEND Transport Review Management Response for assurance.

### **113. Internal Audit Progress Report**

*(Item 7)*

1. The Head of Internal Audit commenced by making a special mention to two colleagues who would be shortly leaving the Council, Sarah Bubb, Audit Manager and Shelley Etherton, Counter Fraud Specialist who had both had a tremendous impact for the Internal Audit and Counter Fraud service at the Council.
2. The Head of Internal Audit and the Internal Audit Manager introduced the report which detailed summaries of completed Audit reports for the period January to May 2023. It was said that the 'CS03-2023 – Purchase Cards' audit had been finalised since the publication of the report. Members were told that 'CR03-2023 – Preparedness for CQC Inspection (ASCH)' had been proactively sought by the Directorate for validation of their self-assessment results and that this was an example of the Internal Audit service adding value as the Council seeks to meet its objectives.
3. Several high-risk areas for development were highlighted to Members, including those in the limited audit opinions, Individual Contracts in the ASCH Directorate, Budget Savings and the Councils Net Zero Action Plan audits.
4. In response to questions and comments from Members it was said that:
  - a) Regarding 'CR03-2023 – Adult Social Care Reform – Preparation for the CQC Inspection', the Corporate Director for Adult Social Care said that the Strategic Reset Programme Board would be used as the governance structure for providing the Corporate Management Team and Members with regular updates on the CQC inspection. It was said that additional resources had been allocated towards the development and monitoring of the management action plan to resolve the identified gaps.
  - b) The ongoing review into the restructure of the commissioning function aimed to identify and allocate the necessary resources for formal contract monitoring. In response to the 'RB03-2023 – Individual Contracts with Care Providers' audit, the Interim Strategic Commissioner was working with Legal colleagues on the rewording of individual contracts to ensure that clearer timescales are provided to care providers for agreeing to the terms and conditions.
  - c) The Director of Environment and Waste said that the national and local context had changed significantly since Laser Energy had carried out carbon modelling and cost forecasting in 2020. Considering this, there was an ongoing review into the requirements and estimated costs for achieving Net Zero targets, including the financial implications of carbon offsetting. An update on the formal governance arrangements, the risk register and the revised, costed actions would be brought back to the Governance and Audit Committee at a later meeting date for assurance purposes.
  - d) While referencing to the Limited Assurance on Budget Savings which Internal Audit reported on, members reflected on a previous External Audit report and

raised concerns regarding the £4m invoice to an NHS CCG without any supporting evidence. As this was currently under investigation, it was agreed that an update could not be provided to the Committee at the time of this meeting. However, the Corporate Director Finance assured Members that there had been a closer collaboration between Adult Social Care and the Integrated Care Board over the last 18 months to mitigate the risks identified in the External Audit report, such as integrated commissioning and pooled budgets.

- e) A Member briefing on Section 256 agreements would be arranged as part of the Governance and Audit Committee's training programme.

- 5. RESOLVED to note the Internal Audit Progress Report for the period January to May 2023.

#### **114. Counter Fraud Progress Report**

*(Item 8)*

- 1. The Counter Fraud Specialist introduced the report which detailed the Counter Fraud activity undertaken for the period April 2022 to March 2023, including fraud and irregularities. It was said that the Counter Fraud work remained at a manageable level given the current resources. The Counter Fraud Specialist highlighted the following risk areas: cyber enabled crime in schools; direct payments; and blue badges. It was highlighted that cyber enabled crime in Kent schools, which had escalated from spear phishing to hacks of school staff email accounts, remained a financial and data protection risk to the organisation.
- 2. In response to questions and comments from Members it was said that:
  - a) There would be a future report to the Committee on the actions arising from the National Fraud Initiative.
  - b) The misuse of deceased Blue Badges primarily occurred when cancelled Blue Badges were not returned to the Council.
  - c) The mandate fraud that occurred in ASC where a £222,000 loss occurred was fully recovered.
- 3. RESOLVED to:
  - a) Note the Counter Fraud Update report for 2022/23.
  - b) Note the progress of the Counter Fraud Action Plan for 2022/23.
  - c) To review, comment on and approve the Counter Fraud Action Plan for 2023/24.

#### **115. Corporate Risk Register**

*(Item 9)*

- 1. The Corporate Risk & Assurance Manager introduced the Corporate Risk Register which was received by the Governance and Audit Committee twice each year for assurance purposes. It was said that the reporting schedule for 2023 had been adjusted to ensure that the report included the issues arising from March 2023 Cabinet Committee engagement with the directorate risks and the headline risk areas from divisional registers. It was highlighted that the two most common themes of comments raised at Cabinet Committees were cyber security and workforce issues, including recruitment and retention.
- 2. In response to questions and comments from Members it was said that:



- a) The scope and timescales for risk CRR0045 (Maintaining effective governance and decision making in a challenging financial and operating environment for local government) was under review.
  - b) The Committee expressed interest in a more in-depth review of CRR0052 (Impacts of Climate Change on KCC Services) and its impact on highways for assurance purposes.
3. RESOLVED to note the report for assurance.

### **116. External Audit Progress Report** *(Item 10)*

1. Mr Paul Dossett from Grant Thornton UK LLP introduced the report which provided an update on the current progress of external audit work and a summary of emerging national issues and developments. It was highlighted that a deep dive review of aspects of KCC's governance arrangements was being carried out and the findings would be reported to the Governance and Audit Committee in due course.
2. In response to concerns raised by Members, the Chair agreed to review the reporting arrangements for the deep dive with the external auditors.
3. RESOLVED to note the report for assurance.

### **117. External Audit 2022/23 Pension Fund Audit Plan** *(Item 11)*

1. Mr Paul Dossett introduced the report which provided an overview of the planned scope and timing of the statutory audit of the Kent Pension Fund. It was highlighted that Grant Thornton's approach to materiality had changed since the prior year's report.
2. RESOLVED to note the report for assurance.

### **118. Kent Pension Fund 2022-23 Planning Inquiries with Management Responses** *(Item 12)*

RESOLVED to consider that the management responses were consistent with the Governance and Audit Committee's understanding. There were not any further comments that the Committee wished to make.

### **119. Other items which the Chairman decides are urgent** *(Item 13)*

1. Further to advice received from the Corporate Director Finance, the Chair announced that under the Accounts and Audit Regulations (2015), a notice would be published on the Council's website to advise the public on the reasons for the delay in publishing the unaudited 2022/23 accounts and related documents. The intention was to publish the draft accounts on the 1<sup>st</sup> July 2023 rather than 1<sup>st</sup> June 2023.

2. The Chair advised Members that, given its importance for the authority, it had been considered appropriate that the Committee receive a report on the SEND Improvement Notice issued by the Department for Education at a suitable time and in a way in which the Committee could add value and seek the appropriate assurances.
3. The Chair provided a brief verbal update from the Chair of the SEND Sub-Committee following its inaugural meeting. It was said that further updates would be provided to the Committee following the SEND Sub-Committee meeting to be held on the 25<sup>th</sup> of July 2023.

## **120. Internal Audit Progress Report - Exempt**

*(Item 14)*

1. The Internal Audit Manager introduced the progress report for CR04-2023 – Enterprise Business Capabilities (Oracle). It was said that the Internal Audit team were working closely with the Corporate Risk Management Team on developments in this area.
2. RESOLVED to note the Internal Audit Progress Report for the period January to May 2023.

## **121. Counter Fraud Investigation Verbal Update**

*(Item 15)*

1. The Counter Fraud Officer provided a verbal update on an ongoing Counter Fraud investigation relating to a historic loan agreement. The outcome of the investigation would be reported to the Governance and Audit Committee at a future meeting.
2. RESOLVED to note the verbal update.

From: Ben Watts, General Counsel  
To: Governance and Audit Committee, 6 July 2023  
Subject: Governance and Audit Committee Training Programme  
Status: Unrestricted

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## **1. Introduction**

- 1.1 This report provides an outline of the recommended training programme and minimum training requirements for Members and substitutes of the Governance and Audit Committee.
- 1.2 The terms of reference of this Committee require that Members and substitutes “have had training in the relevant procedures.” Identifying how this training is established has not been formalised. For the removal of doubt, this training requirement extends to elected and co-opted Members of the Committee.
- 1.3 The planned approach to mandatory training for Governance and Audit Committee Members and the basis and frequency on which the training will be provided is set out below.

## **2. Background**

- 2.1 The CIPFA Review of the Governance and Audit Committee, received at the 21 July 2022 Governance and Audit Committee meeting, included a recommendation that a training programme be established for Committee Members to both support those who are new to the Committee and act as a refresher for more experienced members. The recommendation suggested that the training should be used to share knowledge and to develop an appropriate culture for the Committee.
- 2.2 The key findings of the Annual Governance Statement for 2021-22 included a statement that the continued professional development of Governance and Audit Committee Members and effectiveness of the Committee was vital for the Council. It was agreed at the Governance and Audit Committee meeting held on 26th January 2023 that additional induction training sessions were required to ensure continuous improvement of the Committee and that the existing vacancies could be filled.

## **3. Governance and Audit Committee Training Programme**

- 3.1 The proposed training programme is comprised of ‘Part A’ mandatory minimum training requirements for Committee Members and substitutes and ‘Part B’ *just in time* training sessions delivered as refreshers throughout the meeting cycle.

- 3.2 Part A training, valid for two years, enables Members to serve as Governance and Audit Members or substitutes. Members will be required to complete all Part A training modules and a register of those with completed Part A training will be maintained by the Clerk. This training will be delivered every two years, starting after the elections with a new cohort of Members. It will include the following areas:
- Audit Committee role and function.
  - Introduction to local government finance.
  - Introduction to governance in local government.
  - Role of internal audit.
  - Role of external audit.
  - Principles of risk management.
- 3.3 There will be a need to ensure that the training is reviewed to ensure it is relevant. Therefore, the Chief Finance Officer, Head of Internal Audit, and Monitoring Officer will be asked to sign off on the details of each Part A training programme. This will be communicated to all Members of this Committee, as well as all Group Leaders to enable potential Committee Members/substitutes to receive training.
- 3.4 The Part B training offer would support the work programme and will be offered to Members in advance of certain items being on the Agenda to maximise the outcomes of the meeting. This training shall be delivered yearly as part of the work programme and is limited to Members who had received Part A training. This training includes:
- Local governance assurance (inc. Seven principles in 'Delivering Good Governance in Local Government: Framework') – to be delivered ahead of the Annual Governance Statement being approved.
  - How to read a statement of accounts (inc. what to look for in External Audit reports) – to be delivered ahead of discussing the statement of accounts.
- 3.5 This will form the core of an annual training and development programme for the Committee. There will be other opportunities for training on other matters in response to the needs of the Committee and the wider context, for example learning the lessons from events at other authorities. Some of these may overlap with learning and development needs identified through the Member Development Sub-Committee and so be made available to a wider pool of Members.
- 3.6 The training provided will come from a diverse range of sources. Whilst the professional senior advisors to this Committee (General Counsel, Head of Internal Audit and Corporate Director of Finance alongside External Audit) will continue to provide/arrange training, that offer will be supported by investing in external providers and training opportunities for Members.
- 3.7 The Clerk of this Committee will attend or participate in the training and development opportunities required of, and offered to, Members of the

Committee where possible. This will help ensure the appropriate professional support and advice to the Committee can be maintained.

#### **4. Recommendation**

The Governance and Audit Committee is asked to NOTE and COMMENT on the proposed training programme set out in the report.

#### **5. Background Documents**

None.

#### **6. Report Author and Relevant Director**

Ben Watts, General Counsel  
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From: Ben Watts, General Counsel

To: Governance and Audit Committee, 6 July 2023

Subject: Appointment of an Independent Member to the Governance and Audit Committee

Status: Unrestricted

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## 1. Background

- a) In January 2019, this Committee approved the principle of appointing an independent member for a two-year trial. Following further consideration and a recruitment exercise, Dr David Horne was appointed and added to the Membership of the Committee in October 2019 (due to the timings of meetings, the Committee formally noted his appointment at its January 2020 meeting).
- b) In July 2021, the appointment was extended by a further two years. As this extension will come to an end in October this year it is an appropriate time to review this matter

## 2. The role of the independent member

- a) There is no legislative requirement for a local authority audit committee to have a co-opted independent member (although it is a requirement for authorities in Wales and combined authorities in England). CIPFA recommend having two co-opted members as best practice.
- b) As set out in the CIPFA publication “Audit committees: practical guidance for local authorities and police” (2022 edition), the reasons for this recommendation are as follows:
  - To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
  - To provide continuity outside the political cycle. This is of particular importance where membership of the committee changes annually or because of elections.
  - To help achieve a non-political focus on governance, risk, and control matters.
  - Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
  - Having two co-opted members shows a commitment to supporting and investing in the committee.
- c) The terms of reference of this Committee allows up to two co-opted members to be appointed. As co-opted members cannot vote on council policy under s.13 of the Local Government and Housing Act 1989, these are non-voting roles.
- d) The options available to the Committee are;

- I. Cease having an independent member at the expiry of the current member's term.
  - II. Continue with having one independent member.
  - III. Appoint two independent members.
- e) If option II is selected, the appointment the current members may be extended, or a recruitment exercise may be undertaken. If III is selected, a recruitment exercise will be undertaken.

### **3. Next Steps**

- a) As the first two-year appointment was a trial followed by an extension, it is assumed that any future appointments would be for four year terms. This would be on a par with the member electoral cycle but offset from it so that there would be continuity of membership across council terms.
- b) The person specification for the role is set out in the Appendix. This is an updated version of the specification agreed in 2019.
- c) A Member Panel comprising the Chair and two Committee Members will conduct the interviews and make the appointment, supported by officers. At least one officer with the appropriate technical expertise will be present during the interviews.

### **4. Recommendation**

The Governance and Audit Committee is asked to:

- a) Determine whether to continue with having an independent co-opted member on the Committee, and if so, whether to have one or two independent members;
- b) Approve the role description set out in the appendix; and
- c) Delegate to the Monitoring Officer, in consultation with the Chief Finance Officer and Head of Internal Audit, the authority to make arrangements for the recruitment process, following discussion with the Chair.

### **5. Background Documents**

None.

### **6. Report Author and Relevant Director**

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## **Appendix – Role Description**

### **Independent Governance and Audit Committee Member**

#### **Background**

Kent County Council operates a Governance and Audit Committee that is accountable directly to Council. Its role is to provide independent and high-level focus on the adequacy of governance, risk, finance, and control arrangements of the Council.

The full Terms of Reference for the Audit Committee is attached.

It operates with due regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) good practice guidance and Position Statements last updated in 2022.

#### **Duties and Responsibilities / Time Commitment**

To attend Governance and Audit Committee meetings as and when required. The Committee normally meets at least six times a year (January, March, May, July, September, October, November); however, the number of meetings will vary depending on business need. The Committee meets during the day, normally starting at 10.00. Meetings last between 2 to 3 hours (but may be longer on occasion) and you would also need to allow for some preparation time. Meetings are held in person in County Hall, Maidstone.

There are minimum mandatory training requirements for elected Members of the Committee and it is expected that the Independent Member will attend the same or equivalent training.

To other attend training events as required, some of which are held prior to the start of each meeting, or online.

To actively promote good governance, risk management and control in the delivery of the Council's functions.

To be an independent source of support for Council's Governance and Audit Committee providing independent challenge and scrutiny in response to reports presented to it.

To behave in accordance with the Council's Constitution.

Co-opted members are subject to the Kent Code of Members Conduct.

#### **Knowledge and Skills**

The candidate for the position of Independent Member of the Audit Committee will ideally have:

- extensive experience of working with or being a member of an Audit Committee.
- a financial or audit type background and appropriate experience of financial management.
- a good understanding of governance, risk management and control.
- integrity, objectivity, discretion, and the ability to make decisions.
- an ability to analyse complex information, question, probe and seek clarification so to come to an independent and unbiased view.
- experience of working in or with large, complex organisations with an understanding of the political environment that local authorities operate within,

- good interpersonal and communication skills.

You should not:

- have been a member or employee of the Council at any time during the last 2 years.
- be a relative or close friend of a member or officer of the Council.
- be engaged in any party political activity.
- have any criminal convictions or be an un-discharged bankrupt.
- have any significant business dealings with the Council.

### **Remuneration**

This is a voluntary position.

A remuneration for expenses of £1,500 per annum is paid.

From: Ben Watts, General Counsel  
To: Governance and Audit Committee, 6 July 2023  
Subject: Lessons to be Learned from Other Authorities  
Status: Unrestricted

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## 1. Introduction

- a) Local authorities operate within a legislative framework involving a range of statutory requirements aimed at ensuring they are well-run, financially sustainable, and deliver effective services. Some of these relate to an internal system of checks and balances – such as scrutiny, internal audit, and the requirement of the Chief Finance Officer and Monitoring Officer to write Section 114<sup>1</sup> and Section 5<sup>2</sup> reports (respectively) in certain circumstances.
- b) Looking externally, the regulatory and oversight framework in which local authorities operate is complex with bodies such as OFSTED and the CQC able to carry out inspections, issue reports, and take (different kinds of) action in certain circumstances. Similarly, the Council’s external auditors also have a role in reviewing the activities and actions of the Council.
- c) The Department for Levelling Up, Housing and Communities has a strategic role in assessing where local authorities are at risk of failing in their “best value” duty<sup>3</sup>. Although there are many stages to go before it happens, the Secretary of State does have powers to appoint someone to inspect an authority and intervene where there is evidence that the authority is indeed failing. Intervention does not necessarily follow an inspection.
- d) Members of this Committee were able to attend a training event on this topic on 5 June 2023. This provided a broad overview. In order to provide some focus from amongst the examples that could have been drawn on, the focus of this report is on the lessons to be learned from the times when the government’s powers of inspection and intervention have been exercised in recent years. The lessons from other authorities will still be relevant to the discussion. The connection to Section 114 reports is also considered.
- e) Since that relatively recent training event, Woking and Thurrock Council have been in the news in relation to interventions, publicity and reports.
- f) As part of the Annual Governance Statement process and in previous conversations with the Governance and Audit Committee, the Monitoring Officer felt it important that resource be put into preparing a report and training for the Committee to consider the learning opportunities that flow from the various interventions into Councils elsewhere as part of KCC’s continual improvement commitments.

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<sup>1</sup> Of the Local Government Finance Act 1988. These are sometimes referred to as Section 114 Notices in practice.

<sup>2</sup> Of the Local Government and Housing Act 1989.

<sup>3</sup> Under Section 3 of the Local Government Act 1999.

## 2. Learning the Lessons

- a) Between 2010 and 2020 this power of formal intervention by government was exercised over 4 authorities – Doncaster Metropolitan Borough Council, London Borough of Tower Hamlets, Rotherham Metropolitan Borough Council, and Northamptonshire County Council. During 2021 and 2022 it was exercised over 5 authorities – Sandwell Borough Council, Liverpool City Council, Slough Borough Council, Nottingham City Council, and Thurrock Council.
- b) There has also been non-statutory intervention by the Secretary of State into the London Borough of Croydon. Nottingham City Council was subject to a non-statutory intervention prior to the statutory one. While the number of statutory and non-statutory interventions has risen, the numbers are small compared to the number of authorities in England.
- c) Prior to the government taking these steps, there needs to be evidence that the local authority in question may be failing its best value duty. This evidence can come from the council itself (for example, regular reports on financial and governance matters), or from external sources (for example, OFSTED and the CQC).
- d) External auditors are under a duty<sup>4</sup> to issue a Public Interest Report where it believes there is a significant matter that needs to be brought to the attention of the authority and wider public. These are also relatively rare, but the incidence of them has been increasing in the last couple of years.
- e) All of this produces a growing volume of information about local authorities in challenging circumstances – the background, the impact, and the actions taken to improve. Every local authority that has featured in these reports operates in a different context and has undergone a different journey.
- f) However, there are many areas of commonality between the different authorities. There are challenges common to the whole local authority sector, and councils operate within the same legal and regulatory framework. The importance of local authorities reflecting on their practice, and the lessons that can be learned from elsewhere, comes through in many of the reports produced on councils that have experienced challenges. This is a useful exercise, regardless of how many of the same factors seem to apply, as set out as an action in the Annual Governance Statement for 2021/22<sup>5</sup>.

## 3. Overview Reports

- a) In June 2020, the then Ministry of Housing, Communities and Local Government produced a guidance document - “Addressing cultural and governance failings in local authorities: lessons from recent interventions.”<sup>6</sup>

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<sup>4</sup> Under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014.

<sup>5</sup>

<https://democracy.kent.gov.uk/documents/s116150/Annual%20Governance%20Statement%20for%202021-22.pdf>

<sup>6</sup> <https://www.gov.uk/government/publications/addressing-cultural-and-governance-failings-in-local-authorities-lessons-from-recent-interventions/addressing-cultural-and-governance-failings-in-local-authorities-lessons-from-recent-interventions>

Acknowledging the limitations of such a list, the following are set out as “potential indicators of a local authority which has problems”:

- lack of effective political and/or corporate leadership, including an overreliance on interim statutory officers.
- a lack of corporate capacity, resulting in a lack of strategic vision and direction, and inadequate internal processes.
- poor and inappropriate councillor conduct.
- conflict and distrust among and between councillors and senior officers.
- the absence of effective scrutiny, transparency, and public consultation, including inadequate protections for whistle-blowers.
- a lack of awareness and acceptance of the need for improvement; and insufficient capacity to achieve the change required.<sup>7</sup>

b) Although this guidance was issued prior to the recent increase in numbers of best value inspection reports and these indicators were used as part of the framing of these inspections, the detail in more recent inspection reports demonstrates that they still have relevance.

c) Grant Thornton issued a report on the lessons to be learned from Public Interest Reports in March 2021, with a follow-up coming out in September 2022<sup>8</sup>. The key themes set out in the latter are:

- Cultural and governance issues.
- Failure to understand and manage the risks associated with external companies.
- Failure to address and resolve relationship difficulties between senior officers and members.
- Financial capability and capacity.
- Audit committee effectiveness.

d) The next few sections move from the overview reports to specific case studies. There is a wealth of information available on each, but the approach taken was to summarise the background reasons that have been identified as leading the government to consider some form of intervention. The key points of any intervention are then also set out.

#### **4. Case study 1: London Borough of Croydon**

a) In February 2021, the findings of a non-statutory review into Croydon Council were published<sup>9</sup>. The background to the financial pressures and problems encountered by the Council are set out as:

- Financial pressure of demand on Children and Adult Social Care budgets poorly managed.
- Poor track record in managing to budget and achieve savings.
- Some commercial income generation initiatives poorly managed / did not deliver to expectations.
- Historically very low level of reserves.

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<sup>7</sup> Ibid, section 2.

<sup>8</sup> <https://www.grantthornton.co.uk/insights/lessons-from-recent-public-interest-reports/>

<sup>9</sup>

- Medium term financial planning over reliant on growth in Business Rates income that did not materialise.
- Council unfamiliar with taking and implementing difficult financial decisions.
- Political leadership accentuated the positive rather than giving an accurate reflection of the Council's financial position; Officers asked to reword reports to Cabinet.
- Checks and balances within the Council appear not to have worked: the Scrutiny and Audit Committees were not challenging enough; the Section 114 report could have been issued earlier; the external auditors could have escalated concerns more forcefully, though a Public Interest Report was issued which brought matters to a head.

b) As a result of this review, an Improvement and Assurance Panel was appointed to support and challenge the Council and report to the Secretary of State<sup>10</sup>. The fourth and most recent Panel report was published in March 2022<sup>11</sup>. A third Section 114 report was issued in November 2022<sup>12</sup> (the previous two were issued in November and December 2020).

## 5. Case Study 2: Liverpool City Council

a) Statutory intervention into Liverpool City Council was announced in June 2021. This decision followed on from a Best Value Inspection report<sup>13</sup> published in April 2021. This report set out the following as the background to the issues at the authority<sup>14</sup>:

- A failure of proper and due process in planning and regeneration, including a lack of proper record keeping.
- A lack of scrutiny and oversight across highways.
- A failure of proper process in relation to property management, including compliance with the Council's standing orders.
- Poor governance arrangements for Council-operated companies.
- An overall environment of intimidation.
- Failure of standards regime for Members.

b) The inspection was undertaken at the same time as a police investigation covering some of the same areas of interest.

c) Statutory intervention was announced in June 2021 with Commissioners appointed to exercise functions in four areas: all functions associated with highways; all functions associated with regeneration; all functions associated

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<sup>10</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/957586/Croydon\\_Council\\_Improvement\\_and\\_Assurance\\_Panel\\_letter.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/957586/Croydon_Council_Improvement_and_Assurance_Panel_letter.pdf)

<sup>11</sup> <https://www.gov.uk/government/publications/london-borough-of-croydon-improvement-and-assurance-panel-fourth-report>

<sup>12</sup> <https://www.croydon.gov.uk/sites/default/files/2022-11/Section%20114%20report%20-%202022%20November%202022.pdf>

<sup>13</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/976197/Liverpool\\_Best\\_Value\\_inspection\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/976197/Liverpool_Best_Value_inspection_report.pdf)

<sup>14</sup> As summarised at: <https://www.gov.uk/government/speeches/secretary-of-state-statement-liverpool-city-council>



with property management; and functions related to the appointment and dismissal of statutory officers<sup>15</sup>.

- d) The second and most recent Commissioners' report<sup>16</sup> was released in August 2022. In November 2022, the statutory intervention was expanded to cover finance, governance, and recruitment<sup>17</sup>.

## 6. Case Study 3: Slough Borough Council

- a) Slough was one of a small number of councils to request exceptional financial support during the COVID-19 pandemic. The government's agreement in principle was subject to an external assurance review. Separate reviews were undertaken into finance<sup>18</sup> and governance<sup>19</sup>. The results of these reviews were published in October 2021 alongside the government's decision to commence statutory intervention. The main findings that lead to this decision were:

### I. Finance:

- The scale of current and potential liabilities relative to revenue budget.
- Potential for growth in liabilities, particularly round council-owned companies.
- Unprecedented level of savings needed over term of medium-term financial plan.
- Difficulty in finding substantial savings from statutory services (which account for 2/3 of budget).
- Lack of good track record in delivering savings.
- Financial viability and savings require the disposal of £400m of assets, which may take considerable time to realise best value.

### II. Governance:

- Longstanding systemic failures in children's services.
- Lack of political and officer continuity.
- Lack of clarity on financial decision-making.
- Lack of service reform during austerity.
- Weakness in arrangements for preparing financial accounts.
- Inadequate council process in some areas; lack of robust governance system.
- A Section 114 report was issued in June 2021.

- b) In December 2021 Directions were issued by the Secretary of State to appoint Commissioners to Slough (with an Assistant Commissioner appointed in January 2022). The Lead Commissioner, Finance Commissioner, and

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<sup>15</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/992636/210610\\_Explanatory\\_Memorandum.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/992636/210610_Explanatory_Memorandum.pdf)

<sup>16</sup> <https://www.gov.uk/government/publications/liverpool-city-council-commissioners-second-report>

<sup>17</sup> <https://www.gov.uk/government/publications/liverpool-city-council-letter-to-commissioners-8-november-2022>

<sup>18</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1028056/Slough\\_Cipfa\\_Final\\_-\\_web\\_version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028056/Slough_Cipfa_Final_-_web_version.pdf)

<sup>19</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1028077/SloughGovernance\\_Review\\_-\\_web\\_version.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1028077/SloughGovernance_Review_-_web_version.pdf)

Assistant Commissioner were appointed to oversee that the actions needed to deliver the necessary transformation were taken.

- c) The specific areas in which the Commissioners were to exercise powers were as follows: all functions associated with the governance and scrutiny of strategic decision making; all functions associated with strategic financial management; all functions associated with the oversight of the collection of revenues and distribution of benefits; and, all non-executive functions relating to the appointment/dismissal of statutory officers and the scrutiny officer<sup>20</sup>.
- d) The Slough Commissioners first report was published in July 2022<sup>21</sup>. Additional powers for the Commissioners were requested in the report and were granted in relation to the Council structure and recruitment of tiers two and three staff<sup>22</sup>.

## 7. Section 114 Reports/Notices

- a) There is not an automatic connection between the powers available to an authority's statutory officers and the actions taken by government under the best value legislation. As the case studies demonstrate, statutory intervention is not always preceded by a Section 114 report, and nor does the issuing of a Section 114 report mean that intervention will follow. However, in some cases, it is part of the evidence base for a review being carried out and Commissioners being appointed. Yet there is a close enough connection that considering Section 114 reports that have been issued elsewhere can reveal useful lessons.
- b) In September 2022, CIPFA issued the report "Learning lessons: what Section 114 can teach us."<sup>23</sup> In this report, CIPFA sets out the following common symptoms displayed by authorities that have issued Section 114 reports:
  - Over-ambitious savings targets that are not well evidenced.
  - Lack of a medium-term financial plan.
  - A leadership team that does not work together; change at a senior level.
  - Inadequate governance (lack of oversight, audit/governance committees not exercising their function; roles not understood).
  - Weak financial management.
  - Lack of reserves.
- c) The report makes the comments that looking across the local authority sector, including those that have not issued Section 114 reports/notices, "an increasing number of authorities ... are exhibiting some of the same symptoms"<sup>24</sup>.

## 8. Recommendation

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<sup>20</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1045605/Revised\\_Explanatory\\_Memorandum.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1045605/Revised_Explanatory_Memorandum.pdf)

<sup>21</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1094655/Commissioners\\_first\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1094655/Commissioners_first_report.pdf)

<sup>22</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1101641/Letter\\_to\\_Slough\\_Commissioners\\_01.09.22.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1101641/Letter_to_Slough_Commissioners_01.09.22.pdf)

<sup>23</sup> <https://www.cipfa.org/cipfa-thinks/insight/learning-lessons-what-section-114-can-teach-us>

<sup>24</sup> Ibid., p.3.

The Governance and Audit Committee is asked to Note the report.

**9. Background Documents**

None.

**10. Report Author and Relevant Director**

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From: Ben Watts, General Counsel  
To: Governance and Audit Committee, 6 July 2023  
Subject: Company Governance Arrangements  
Status: Unrestricted

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## 1. Background

- a) Members will be aware that the Council wholly owns a number of companies that currently report to a Shareholder Board, chaired by the Deputy Leader who has executive responsibility for traded services.
- b) Members will also be aware both from reports elsewhere on this agenda and generally, that many other local authorities have faced significant financial and governance failures in the way in which their companies and interests therein have been managed.
- c) The lessons learned from a number of these reports have carefully been considered and many of the best practice recommendations in those reports have long since been implemented here in Kent. Similarly, many of the trading models mentioned in the report have been rejected by Members and Officers of this Council.
- d) The above notwithstanding, in recent times, the General Counsel has recommended changes to the Terms of Reference to this Committee which read as follows:
  - reviewing assurances that the Council has appropriate arrangements in place to ensure that the commercial opportunities and risks presented through company ownership are managed effectively
  - oversight of the Executive's shareholder strategy regarding companies in which the Council has an interest,
- e) In the light of reviewing the relevant reports, the General Counsel recommends that to further improve the arrangements and to give power to the amended terms of reference that the Council's Shareholder Board become a formal sub-Committee of Cabinet.
- f) Whilst many of the items will fall in the exempt part of the agenda, it provides an important opportunity for the Council's maturing shareholder role to be understood and transparently managed in this way.

## **2. Recommendation**

Governance and Audit Committee is asked to:

- a) AGREE that the Council's Shareholder Board become a formal sub-Committee of Cabinet
- b) RECOMMEND to County Council that this change be made, and
- c) INSTRUCT the Monitoring Officer to draft the necessary Governance changes

## **3. Background Documents**

None.

## **4. Report Author and Relevant Director**

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**By:** Jonathan Idle – Head of Internal Audit

**To:** Governance and Audit Committee – 6 July 2023

**Subject:** **INTERNAL AUDIT PLAN 2023/24 + AUDIT CHARTER**

**Classification:** Unrestricted

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**Summary:** This report details the proposed Internal Audit Plan for 2023/24; the Internal Audit Charter, which underpins the plans and practice of the Internal Audit team and the key performance indicators to be tracked and monitored during 2023/24.

**Recommendation: FOR DECISION**

### **Introduction**

- The Public Sector Internal Audit Standards (PSIAS) require the Internal Audit service to produce a risk-based audit plan. This paper sets out the proposed 2023/24 Internal Audit Plan (Plan), including a summary of the available resources.
- The 2023/24 Plan will be a rolling 6-month plan, to allow more flexibility to incorporate changing and emerging risks into the Plan, replacing the previous fixed annualised audit planning approach.
- This paper sets out the following:
  - The priority audits for July – December 2023. These Audits have been prioritised using our risk-based assessment and evaluation methodology, following the criteria detailed below.
  - Some further Priority 2 audits to be considered for the latter part of 2023/24. The Priority 1 audits have been assessed as ‘must do’s’ and Priority 2 audits have been assessed as ‘could do’s’. The significance and priority of all potential audits identified within the audit planning process, will be continually risk assessed throughout the year.
  - The Internal Audit Charter. The Charter is a mandatory requirement of the Public Sector Internal Audit Standards, which should be reviewed and updated periodically. The Charter sets out the purpose, authority and responsibility of Internal Audit.
  - The key performance indicators to track and monitor audit plan delivery and service performance during 2023/24.

**2023-24 Internal Audit Plan**

- The Public Sector Internal Audit Standards (PSIAS) stipulates the need for the development of an Audit Plan.
- To enable the Internal Audit service to be more flexible and adaptive to changing priorities and emerging risks, the Plan for 2023/24 will be a 6-month rolling Plan. This dynamic approach will ensure optimum value to the Council and stakeholders and more effective deployment of audit resources.
- The Plan will be reviewed every 3 months by completing an assessment of all potential audits identified against the following criteria:

**Significance** How important is the activity to the Council in achieving its objectives, key plans and managing its risks?

**Sensitivity** How much interest would there be if things went wrong and what would be the reputational impact?

**Time** When is the best time for the audit to be completed?

- The quarterly review will also consider an evaluation of relevant business intelligence to identify new priorities / emerging risks and potential audit areas.
- Another key consideration when reviewing and updating the Plan throughout the year, will be to ensure there continues to be sufficient coverage of the 8 themes of Corporate Health, which are utilised to ensure there is sufficient coverage for the Head of Internal Audit’s Annual Opinion in July 2024.
- Any amendments to the Plan will be reported to the Governance and Audit Committee.
- The Plan for 2023/24 is attached at **Appendix A**. This includes 73 audits, which are spread across the Directorates as follows:

<b>Directorate</b>	<b>Number of Audits</b>
Cross-Directorate	5
Adult Social Care & Health	13
Chief Executive Directorate	19
Children, Young People and Education	8
Deputy Chief Executive	17
Growth, Environment & Transport	11
<b>Total Audits</b>	<b>73</b>

- The Priority 2 audits will be considered for coverage between January – May 2024.



- The Plan has been developed through a risk-based planning process, including the following elements:
  - A review of the corporate and division risk registers and discussion with the Corporate Risk Manager.
  - Discussions with Corporate Directors, Directors and Heads of Service.
  - Attendance at Directorate Management Team meetings.
  - Horizon scanning to identify emerging risks and issues.
  - A review of audits deferred from the 2022/23 Plan.
  - Undertaking an assessment to determine the required coverage needed for the Head of Internal Audit's Annual Opinion for 2023/24.
  - A review of the Council's Annual Governance Statement.
  - A review of previous cyclical / core audit work.
  - Identification of audit reviews to be followed up.
  - Consideration of other sources of assurance.
  
- The Plan includes some audits with specific scope areas where this has already been identified and some audits where scope is still to be determined.
  
- The Plan does not detail the number of days to be assigned to the individual audits, but it does illustrate the total days / resources available.
  
- **Appendix A** sets out how the audits listed on the Plan map to the Reasonable Assurance – 8 Themes of Corporate Health.
  
- **Appendix A** sets out how the audits listed on the Plan mapped to KCC's Corporate Risks.
  
- In addition to the projects listed on the Plan, we also have **80** days set aside for grant certification work.
  
- The outcomes from the 2023/24 Plan will provide the following:
  - Overall opinion and assurance to support the 2023/24 Annual Governance Statement.
  - Assurance against the mitigation of key corporate risks.
  - Assurance over the critical systems of the Council.
  - On-going advice and information to management on risks and controls.
  - Opportunities to provide management with value for money support and advice.

- Excluded from Appendix A are detailed plans for:
  - Internal Audit coverage of Commercial Services Group
  - Income generating and shared service work with Tonbridge and Malling Borough Council, Kent and Medway Fire and Rescue Service, Parish Councils and audits of selected grants.

## Resources

- Based on the current Team resources, the total days available for 2023/24 is **2127** days.
- The number of audit days available for the KCC 2023/24 Audit Plan is estimated to be **1,200**.
- A summary of the overall Audit Plan is illustrated below:

<b>2023/24 KCC Audit Plan</b>	<b>Days</b>
KCC	1200
<b>Sub-Total</b>	<b>1200</b>
<b>External Clients</b>	
Commercial Services Group, KFRS & TMBC	641
Central Government Grants	50
Interreg Grants	30
Parish Councils	50
<b>Sub-Total</b>	<b>771</b>
<b>Total</b>	<b>1971</b>

- Based on the current staffing levels and assumptions, there is sufficient resource to deliver the 2023/24 Audit Plan. However, some further recruitment activity is planned during 2023/24 to provide greater resilience within the team.

## Internal Audit Charter

- It is a requirement of the Public Sector Internal Audit Standards (the Standards) that the purpose, authority and responsibility of Internal Audit is formally defined in an Internal Audit Charter and that this be periodically reviewed and presented for approval to senior management and the Board (defined as the Audit Committee in the Local Government Application Note by CIPFA). The Charter, which is attached at **Appendix A** has been reviewed to ensure it remains fit for purpose to support delivery of the 2023/24 Plan and is compliant with the Standards. No amendments have been made to the Charter previously submitted in April 2022.

## **Key Performance Indicators**

- **Appendix A** sets out the Key Performance Indicators (KPI's) to be tracked and monitored during 2023/24. The updated KPI's reflect an ongoing trend to increasing outcome-based monitoring of the Internal Audit service.

## **Conclusions**

- The Plan provides sufficient coverage of the Council's current and emerging risks and priorities, with sufficient flexibility to add further reviews onto the plan as needed. There will be sufficient resources to deliver the proposed Plan.

## **Recommendations**

- Members are asked to:
  - Agree the proposed Internal Audit Plan for 2023/24
  - Note Priority 2 audits to be considered for the remainder of 2023/24
  - Approve the Internal Audit Charter
  - Note the Key Performance Indicators for 2023/24

## **Appendices:**

Appendix A – 2023/24 Audit Plan + Audit Charter

**Jonathan Idle**  
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# Kent County Council

## Internal Audit Plan

July 2023 – May 2024

**Governance and Audit Committee**  
**6 July 2023**

# 2023/24 AUDIT RESOURCES

CLIENTS	DAYS
Commercial Services Group, KFRS & TMBC	641
Central Government Grants	50
Interreg Grants	30
KCC	1200
Parish Councils	50
<b>TOTAL</b>	<b>1971</b>

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Appendix D - Reasonable Assurance Model

Appendix E - Audits against Corporate Risks

Appendix F - Audit Charter

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# 2023/24 AUDIT PLAN SUMMARY

DIRECTORATES							
PRIORITIES	CROSS DIRECTORATE	ASCH	CED	CYPE	DCED	GET	TOTALS
PRIORITY 1	6	7	9	4	6	7	39
PRIORITY 2	0	6	10	3	11	4	34
<b>TOTALS</b>	<b>6</b>	<b>13</b>	<b>19</b>	<b>7</b>	<b>17</b>	<b>11</b>	<b>73</b>

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## 2. Risk Based Audits

### 2.1 Cross Directorate

Audit Title	Nature of Work	Scope
Gifts & Hospitality	Assurance	Priority 1
Enterprise Business Capabilities (Oracle)	Consultancy	Priority 1
Annual Governance Statement	Assurance	Priority 1
Project Management	Assurance	Priority 1
Contract Management	Assurance	Priority 1
Home to School Transport Follow Up	Assurance	Priority 1

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2. Risk Based Audits		
2.2 Adult Social Care & Health (ASCH)		
Audit Title	Nature of Work	Priority
Usage of Factoring Companies	Assurance	Priority 1
Joint Funding & Governance (NHS) NHS Joint Working & Pooled Budgets	Assurance	Priority 1
Safeguarding (ASCH)	Assurance	Priority 1
Public Health Assurance Mapping	Assurance	Priority 1
Individual Contracts to Care Providers Follow Up	Assurance	Priority 1
Direct Payments / Abuse of Kent Cards	Assurance	Priority 1
Hospital Discharge	Assurance	Priority 1
Payment to Providers	Assurance	Priority 2
Section 117 Aftercare Payments	Assurance	Priority 2
Shared Lives	Assurance	Priority 2
ASCH Programme Management / Commissioning	Assurance	Priority 2
Public Health External Funding Review (Assurance Mapping)	Assurance	Priority 2
Health Visitor Service (Backlog) Performance and Recruitment & Retention of Staff	Assurance	Priority 2

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## 2. Risk Based Audits

### 2.3 Chief Executive Department (CED)

Priority 1		Priority 2	
Business Planning Process	Assurance	Performance Management (Corporate Health)	Assurance
Domestic Abuse	Assurance	Commissioning Restructure	Assurance
Homes for Ukraine	Assurance	Budget Savings Follow Up	Assurance
Freedom of Information	Assurance	Key Decisions	Assurance
Strategic Reset Programme (Governance)	Assurance	Data Security and Protection Toolkit (DSPT)	Assurance
Loan Approval to Schools	Assurance	Risk Management	Assurance
Schools Financial Services	Assurance	Data Protection Impact Assessments (DPIA)	Assurance
UK Resettlement Scheme	Assurance	Sundry Debt	Assurance
Assurance Mapping – Financial Sustainability	Assurance	Compliance with the Council’s Constitution – Procurement	Assurance
		Establishment Review (TBC)	Assurance

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## 2. Risk Based Audits

### 2.4 Children, Young People & Education (CYPE)

Audit Title	Nature of Work	Priority
SEND Accelerated Progress Plan	Consultancy	Priority 1
School Themed Review – Safeguarding	Assurance	Priority 1
National Children’s Care Review	Consultancy	Priority 1
SEND Safety Valve Programme	Consultancy	Priority 1
CYPE Payment Portals	Assurance	Priority 2
SEND Complaints	Consultancy	Priority 2
Capital Programme (Schools)	Assurance	Priority 2

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2. Risk Based Audits		
2.5 Deputy Chief Executive Department (DCED)		
Audit Title	Nature of Work	Priority
Joiners, Movers & Leavers (IT)	Assurance	Priority 1
Business Continuity Planning	Assurance	Priority 1
Complaints	Assurance	Priority 1
Cyber Security	Assurance	Priority 1
Artificial Intelligence	Assurance	Priority 1
Single Data Platform	Assurance	Priority 1
Use of Agency Staff	Assurance	Priority 2
New Facilities Management Contracts	Assurance	Priority 2
Recruitment	Assurance	Priority 2
Managers – People Management Responsibilities	Assurance	Priority 2
Disciplinaries	Assurance	Priority 2
Payroll	Assurance	Priority 2
Health and Safety Themed Review	Assurance	Priority 2
PFI Contracts – Preparedness	Assurance	Priority 2
Technology Board Governance	Assurance	Priority 2
IT Project Management	Assurance	Priority 2
Applications	Assurance	Priority 2

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2. Risk Based Audits		
2.6 Growth, Environment & Transport		
Audit Title	Nature of Work	Priority
Local Transport Bus Market BSIP & Suitability of Public Transport	Assurance	Priority 1
Asset Management Approach & Risk Prioritisation	Assurance	Priority 1
Climate Adaptation (+ Net Zero Follow Up)	Assurance	Priority 1
Highways Transport Maintenance Contracts	Assurance	Priority 1
Highways & Transport Communication	Assurance	Priority 1
Highways & Transport – Sevington Inland Border Post	Assurance	Priority 1
Gypsy Traveller Service	Assurance	Priority 1
Waste Circular Economy	Assurance	Priority 2
Talent Management & Identification	Assurance	Priority 2
Library Review	Assurance	Priority 2
Coroners	Assurance	Priority 2

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Priority 1 Audits (39)	
Adult Social Care & Health (ASCH) (7)	Chief Executive Department (CED) (9)
<ul style="list-style-type: none"> <li>Use of Factoring Companies</li> <li>Joint Funding &amp; Governance (NHS)</li> <li>Safeguarding (ASCH)</li> <li>Public Health Assurance Mapping</li> <li>Individual Contracts to Care Providers Follow Up</li> <li>Direct Payments</li> <li>Hospital Discharge</li> </ul>	<ul style="list-style-type: none"> <li>Business Planning Process</li> <li>Domestic Abuse</li> <li>Homes for Ukraine</li> <li>Freedom of Information</li> <li>Strategic Reset Programme (Governance)</li> <li>Loan Approval to Schools</li> <li>Schools Financial Services</li> <li>UK Resettlement Scheme</li> <li>Financial Sustainability – Assurance Mapping</li> </ul>
Children, Young People & Education (CYPE) (4)	Deputy Chief Executive Department (DCED) (6)
<ul style="list-style-type: none"> <li>SEND Accelerated Progress Plan</li> <li>Schools Themed Review – Safeguarding</li> <li>National Children’s Care Review</li> <li>SEND Safety Valve Programme</li> </ul>	<ul style="list-style-type: none"> <li>Joiners, Movers &amp; Leavers (IT)</li> <li>Business Continuity Planning</li> <li>Complaints</li> <li>Cyber Security</li> <li>Artificial Intelligence</li> <li>Single Data Platform</li> </ul>
Growth, Environment & Transport (GET) (7)	Cross Directorate (6)
<ul style="list-style-type: none"> <li>Local Transport Bus Market BSIP</li> <li>Asset Management Approach and Risk Prioritisation</li> <li>Climate Adaptation (+Net Zero Follow Up)</li> <li>Highways Transport Maintenance Contracts</li> <li>Highways &amp; Transport Communication</li> <li>Highways &amp; Transport – Sevington Inland Border Post</li> <li>Gypsy Traveller Service</li> </ul>	<ul style="list-style-type: none"> <li>Gifts and Hospitality</li> <li>Enterprise Business Capabilities (Oracle)</li> <li>Annual Governance Statement</li> <li>Project Management</li> <li>Contract Management</li> <li>SEND Home to School Transport Follow Up</li> </ul>

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Priority 2 Audits (34)	
Adult Social Care & Health (ASCH) (6)	Chief Executive Department (CED) (10)
<ul style="list-style-type: none"> <li>Payment to Providers</li> <li>Section 117 Aftercare Payments</li> <li>Shared Lives</li> <li>ASCH Programme Management / Commissioning</li> <li>Public Health External Funding Review</li> <li>Health Visitor Service (Backlog) Performance and Recruitment &amp; Retention of Staff</li> </ul>	<ul style="list-style-type: none"> <li>Performance Management (Corporate Health)</li> <li>Commissioning Restructure</li> <li>Budget Savings Follow Up</li> <li>Key Decisions</li> <li>Data Security and Protection Toolkit (DSPT)</li> <li>Risk Management</li> <li>Data Protection Impact Assessments (DPIA)</li> <li>Sundry Debt</li> <li>Compliance with the Council's Constitution – Procurement Establishment Review</li> </ul>
Children, Young People & Education (CYPE) (3)	Deputy Chief Executive Department (DCED) (11)
<ul style="list-style-type: none"> <li>CYP Payment Portals</li> <li>SEND Complaints</li> <li>Capital Programme (Schools)</li> </ul>	<ul style="list-style-type: none"> <li>Use of Agency Staff</li> <li>New Facilities Management Contracts</li> <li>Recruitment</li> <li>Managers – People Management Responsibilities</li> <li>Disciplinarys</li> <li>Payroll</li> <li>Health and Safety Themed Review</li> <li>PFI Contracts – Preparedness</li> <li>Technology Board Governance</li> <li>IT Project Management</li> <li>Applications</li> </ul>
Growth, Environment & Transport (GET) (4)	
<ul style="list-style-type: none"> <li>Waste Circular Economy</li> <li>Talent Management &amp; Identification</li> <li>Library Review</li> <li>Coroners</li> </ul>	

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## Audit Plan mapped to Reasonable Assurance – 8 Themes of Corporate Health

### Corporate Governance (8)

- Annual Governance Statement
- Joint Funding & Governance (NHS)
- Project Management
- Business Planning Process
- Strategic Reset Programme (Governance)
- Performance Management
- Key Decisions
- Highways Transport Maintenance Contract
- Library Review

### Risk Management (19)

- Safeguarding (ASCH)
- Hospital Discharge
- Shared Lives
- Public Health Assurance Mapping
- Domestic Abuse
- Home for Ukraine's
- Gifts & Hospitality
- UK Resettlement Scheme
- Risk Management
- Coroners
- SEND Accelerated Progress Plan
- SEND Complaints
- School Themed Review (Safeguarding)
- National Children's Care Review
- SEND Safety Valve Programme
- Disciplinarys
- Health & Safety Themed Review
- Business Continuity Planning
- Complaints

### Financial Control / VFM (11)

- Use of Factoring Companies
- Public Health External Funding Review
- Loan Approvals to Schools
- Schools Financial Services
- Financial Sustainability Assurance Mapping
- Establishment Review (TBC)
- Budget Savings Follow Up
- Sundry Debt
- CYPE Payment Portals
- Capital Programme (Schools)
- Payroll

### Commissioning, Procurement & Partnerships (9)

- Payment to Providers (ASCH)
- Section 117 Aftercare Payments
- Health Visitor Service (Backlog)
- Individual Contracts to Care Providers Follow Up
- Contract Management
- Compliance with the Council's Constitution (Procurement)
- New Facilities Management Contracts
- PFI Contracts - Preparedness
- Highways & Transport Communication

### Change Management and Programmes/ Projects (6)

- ASCH Programme Management / Commissioning
- Enterprise Business Capabilities (Oracle)
- Local Transport Bus Market BSIP & Suitability of Public Transport
- Waste & Circular Economy
- Climate Adaptation (+ Net Zero Follow Up)
- Highways & Transport – Sevington Inland Border Post

### Asset Management (6)

- Commissioning Restructure
- Use of Agency Staff
- Recruitment
- Managers – People Management Responsibilities
- Asset Management Approach and Risk Prioritisation (GET)
- Talent Management & Identification (GET)

### Information Technology & Information Security (11)

- Artificial Intelligence
- Freedom of Information
- Data Security and Protection Toolkit
- Data Protection Impact Assessment
- Technology Board Governance
- IT Project Governance
- Applications
- Cyber Security
- Single Data Platform
- Joiners, Movers & Leavers (IT)

### Counter Fraud (3)

- Direct Payments
- Individual Contracts to Care Providers Follow Up
- Payroll

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Audit Plan Mapped Against Corporate Risk Register		Section Navigation
Risk	Audits	
CRR0001 – Safeguarding (Children)	Health Visitor Service (Backlog) Performance and Staffing School Themed Review - Safeguarding	Resources & Plan Summary
CRR0002 – Safeguarding (Adults)	Safeguarding (ASCH) Domestic Abuse Homes for Ukraine	Cross Directorate
CRR0003 – Securing resources to aid economic growth & enabling infrastructure	Local Transport Bus Market BSIP & Suitability of Public Transport Waste Circular Economy	Adult Social Care & Health
CRR0004 – Simultaneous Emergency Response, Recovery and Resilience	Business Continuity Planning	Chief Executive Department (CED)
CRR0009 – Future financial and operating environment	Business Planning Process Strategic Reset Programme (Governance) Financial Sustainability Assurance Mapping Schools Financial Services	Childrens, Young People & Education (CYPE)
CRR0014 – Cyber & Information Security Resilience	Cyber Security Artificial Intelligence Single Data Platform Technology Board Governance IT Project Management Applications	Deputy Chief Executive Department (DCED)
CRR0015 – Managing and working with the social care market	Joint Funding & Governance (NHS) Individual Contracts to Care Providers Direct Payments Section 117 Aftercare Payments Shared Lives	Growth, Environment & Transport (GET)
CRR0039 – Information Governance	Freedom of Information Data Security and Protection Toolkit (DSPT) Data Protection Impact Assessment Joiners, Movers and Leavers (IT)	Appendix B - Priority 1 Audits
CRR0042 – Border Fluidity, infrastructure and regulatory arrangements	Highways & Transport – Sevington Inland Border Post	Appendix C - Priority 2 Audits
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# Audit Plan Mapped Against Corporate Risk Register

Risk	Audits
CRR0044 – High Needs Funding	SEND Accelerated Progress Plan SEND Safety Valve Programme SEND Complaints
CRR0045 – Maintaining effective governance and decision making in a challenging financial and operating environment	Key Decisions Compliance with the Council’s Constitution – Procurement Commissioning Restructure
CRR0049 – Fraud and Error	Usage of Factoring Companies Gifts and Hospitality Payroll (Leavers) Sundry Debt CYPE Payment Portals Loan Approvals to Schools
CRR0050 – Chemical, Biological, Radiological and Nuclear Incidents	Public Health Assurance Mapping Public Health External Funding Review
CRR0052 – Impact of Climate Change	Climate Adaptation (+ NET Zero Follow Up)
CRR0053 – Capital Programme Affordability	Capital Programme (Schools)
CRR0056 – SEND Delivery Improvement and High Needs Funding shortfall	SEND Accelerated Progress Plan SEND Safety Valve Programme SEND Complaints
CRR0057 – Home to School Transport Pressures	SEND Home to School Transport Follow Up
CRR0058 – Recruitment and retention of the workforce	Recruitment Talent Management & Identification (GET)
CRR0059 – Non-delivery of savings	Budget Savings Follow Up

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# KENT COUNTY COUNCIL

## Internal Audit Charter

### INTRODUCTION

This Internal Audit Charter formally defines the purpose, authority and responsibility of the Internal Audit service within Kent County Council. It is consistent with the mandatory requirements of the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Authority Guidance Note (LGAN) produced by the Chartered Institute of Public Finance and Accountancy (and the Chartered Institute of Internal Auditors (IIA). The Charter will be reviewed at least annually to ensure it is up-to-date and reflects the PSIAS).

### PURPOSE

The definition of Internal Audit is a mandatory part of the PSIAS and is as follows:

'Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.' Its mission is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Kent County Council's Internal Audit mission statement is, 'To support service delivery by providing an independent and objective evaluation of our clients' ability to accomplish their business objectives, manage their risks effectively and, where relevant, provide advice and insight.'

### AUTHORITY

The requirement for the Council to 'maintain an adequate and effective system of internal audit of its accounting record and its systems of internal control' is contained in the Accounts and Audit Regulations 2015. This supplements the requirements of Section 151 of the Local Government Act 1972 for the Council to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has responsibility for the administration of those affairs. The Council has delegated this responsibility to the Corporate Director of Finance.

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## STATUS OF INTERNAL AUDIT WITHIN THE ORGANISATION

The Head of Internal Audit and Counter Fraud (Head of IA&CF) reports directly to the Corporate Director of Finance and quarterly to the Governance and Audit Committee; meeting regularly with the Chair on a one-to-one basis. The Head of A&CF will also report to senior management and Members when necessary, including statutory officers, Head of Paid Service, Monitoring Officer, and the Leader of the Council.

The Governance and Audit Committee are responsible for ensuring Internal Audit are independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate. The Governance and Audit Committee approve the Charter every year within the Annual Audit and Fraud Plan (the Plan).

The Head of IA&CF has direct access to the Chair of the Governance and Audit Committee and has the opportunity to meet with the Governance and Audit Committee in private.

The Chair of the Governance and Audit Committee will be involved in the appointment and termination of the Head of IA&CF.

## RESPONSIBILITY

It is the responsibility of management to establish and maintain systems of corporate governance, risk management and internal control to provide assurance that the Council's objectives are being achieved and to minimise the risk of fraud or irregularity.

Internal Audit will contribute to the corporate governance process by providing an assurance on the effectiveness of these systems of risk management and internal control, making practical recommendations for enhancements where considered necessary. Management has responsibility to implement agreed actions in relation to issues raised by audit or to accept the risks resulting from not acting. However, Internal Audit will consider taking matters to higher levels of management or to the Governance and Audit Committee, if it is felt that the risk should not (or need not) be borne, or management fails to implement agreed actions in a timely manner.

## PROFESSIONAL STANDARDS

The Council's Internal Audit activity will conform to standards and guidance contained in the Public Sector Internal Audit Standards. The PSIAS encompasses the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework which include:

- the Definition of Internal Auditing;
- the Core Principles;
- the Code of Ethics; and
- the International Standards for the Professional Practice of Internal Auditing.

Compliance, by all those involved in the delivery of Internal Audit services with the Code of Ethics laid down in the PSIAS enhances the environment of trust between Internal Audit and senior management. Fundamentally, the following ethical standards are observed:

- Integrity – performing work with honesty, diligence and responsibility;
- Objectivity – making a balanced assessment of relevant circumstances not unduly influenced by personal interests or by others in forming judgements;
- Confidentiality – respecting the value and ownership of information obtained and not disclosing without appropriate authority, unless there is a legal or professional obligation to do so;
- Competence and Due Professional Care – applying the knowledge, skills and experience needed in the performance of work.

Additional requirements and interpretations for the UK public sector have been incorporated.

The Council's Internal Audit activity will also have regard to the Committee on Standards in Public Life, and to the Seven Principles of Public Life.

## INDEPENDENCE AND OBJECTIVITY

Internal Audit will be sufficiently independent of the activities it audits to enable auditors to perform their duties in a manner that facilitates impartial and effective professional judgements and recommendations. This will include ensuring that where an audit is undertaken of an area where the Head of IA&CF has operational responsibility, appropriate measures are put in place to avoid compromising independence. In the case of the Counter Fraud Service this will be achieved through a tri-authority peer review; the most recent peer review was completed in May 2021.

The Head of IA&CF will have free and unrestricted access and freedom to report in his/her own name to the Corporate Director of Finance, Head of Paid Service, Monitoring Officer and Chair of the Governance and Audit Committee.

In addition, Internal Audit will be responsible for determining its priorities based on an evaluation of risk. Auditable areas which are deemed to represent the most significant controls that are operating in order that KCC delivers its business objectives are identified from directorates, annual operating plans, consultation with managers and Internal Audit's experience of the directorates. These are used to determine the strategic and annual Plans. The Plan will be flexible enough to accommodate the needs of senior management and Members depending on the relative significance of emerging risks. The Governance and Audit Committee will approve the Plan and at each of its meetings will receive reports summarising significant findings of audit work undertaken.

Internal Audit will also report to the Governance and Audit Committee, progress on the directorates' implementation of actions agreed in relation to issues raised by Internal Audit.

Objectivity will be preserved by ensuring that all members of staff are free from any conflicts of interest and do not undertake any duties that they could later be called upon to audit, including where members of staff have been involved in, for example working groups, consultancy etc. Internal Auditors will also refrain from assessing specific operations for which they were previously responsible, within the previous year.

Should the independence or objectivity of the Internal Audit service be impaired in fact or appearance, the Head of IA&CF will disclose details of the impairment to the Corporate Director of Finance and /or the Chair of the Governance and Audit Committee depending upon the nature of the impairment.

When requested to undertake any additional roles or responsibilities outside of Internal Auditing, the Head of IA&CF must highlight to the Governance and Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the Code of Ethics. The Governance and Audit Committee must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity.

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## SCOPE & NATURE OF INTERNAL AUDIT

Internal Audit activity will be undertaken to provide assurance to senior management (Corporate Directors / Corporate Management Team) and the Governance and Audit Committee (referred to as 'Board' in the PSIAS) as to the adequacy and effectiveness of the Councils' systems for corporate governance, risk management and internal control. This effectively means that Internal Audit has independent oversight of all of the Council's operations, resources, services and processes and includes:

- Reviewing the soundness, adequacy and application of financial and other management controls to manage the risks to achieve the Council's objectives;
- Reviewing the extent of compliance with, relevance and financial impact on strategic and operational goals of established policies, plans and procedures;
- Reviewing the extent to which the organisation's assets and interests are accounted for and safeguarded from losses arising from:
  - Fraud and other offences
  - Waste, extravagance and inefficient administration, poor value for money and other causes;
- Reviewing the suitability and reliability of financial and other management data developed within the organisation;
- Reviewing awareness of risk and its control and providing advice to management on risk mitigation and internal control in financial or operational areas where new systems are being developed or where improvements are sought in the efficiency of existing systems;
- Promoting and raising awareness of fraud and corruption;
- Investigating allegations of fraud and corruption;
- Providing advice (consultancy) to Directorates for a variety of issues, such as project assurance, controls advisory requests, areas of concern and lessons learnt reviews.

Internal Audit's activities extend to all remote establishments, subsidiary companies and trading activities.

Where the Head of IA&CF considers that the scope of audit work is being restricted, the Corporate Director of Finance and the Governance and Audit Committee will be advised.

Internal Audit is not relieved of its responsibilities in areas of the Council's business that are subject to review by others but will assess the extent to which it can rely upon the work of others and co-ordinate its audit planning with the plans of such review agencies.

The Head of IA&CF will provide an annual audit opinion as to the adequacy of the Council's governance arrangements, internal controls and risk management processes. This will be used to support the Annual Governance Statement.

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## FRAUD AND IRREGULARITY

Internal Audit and Counter Fraud do not have to investigate all cases of potential frauds and irregularities; however, they must all be reported to the Head of IA&CF or the Counter Fraud Manager who will determine if an investigation needs to take place. Internal Audit will report to the Governance and Audit Committee at the conclusion of each investigation, a summary of the fraud/irregularity, control weaknesses and the outcome. If a significant fraud or irregularity is identified this will be brought to the attention of the Chair of the Governance and Audit Committee at the time of the investigation.

## RIGHT OF ACCESS

To fulfil its objectives, Internal Audit will be granted unrestricted access to all staff, Members, records (documentary and electronic), assets and premises, deemed necessary in the course of its duties. Internal Audit will ensure that all information received as part of their work is treated confidentially at all times.

## INTERNAL AUDIT RESOURCES

The Plan is developed annually and takes into account the work that is needed to enable the Head of IA&CF to provide an assurance on the control environment and governance across the Council. To ensure that there are adequate Internal Audit resources available to deliver the Plan, an assessment is made to determine the number of staff days available; and to identify the knowledge and experience of staff to ensure that Internal Audit has the right skills mix to deliver the Plan. The Head of IA&CF will use a combination of in-house, partner or third parties to deliver aspects of the Plan to the best expertise and value for money. When engaging a partner, the Head of IA&CF will ensure the partner has the appropriate knowledge and experience to deliver the engagement, applies the quality assurance standards of the section and has access to all information and explanation required to undertake the engagement (coordinated through Internal Audit managers).

## REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

In accordance with the Accounts and Audit Regulations, there is a requirement for an annual review of the effectiveness of the system of internal control. This is also part of the wider annual review of the effectiveness of the system of internal control. The Head of IA&CF will carry out an annual review of the Internal Audit function, in accordance with the Quality Assurance and Improvement Programme outlined below and will report the results to the Governance and Audit Committee to enable it to consider the findings of the review. In addition, the Head of IA&CF will arrange for an independent review to be carried out, at least every five years which will be reported to the Governance and Audit Committee; this was last undertaken in March 2021. The Head of IA&CF will review the Charter annually and attach a revised document to the annual Plan.

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## PROVISION OF ASSURANCE TO THIRD PARTIES

The Council's Internal Audit section is sometimes requested to undertake Internal Audit and assurance activity for third parties. These include internal audit services, grant certification and financial accounts sign-off.

The same principles detailed in this Charter will be applied to these engagements.

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement. Internal auditors will address controls consistent with the engagement's objectives and be alert to significant control issues.

## QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME

The Head of IA&CF will maintain a Quality Assurance and Improvement Programme (QAIP) that covers all aspects of the internal audit activity. The programme will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the International Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Head of IA&CF will communicate to the Corporate Director of Finance and the Governance and Audit Committee on the internal audit activity's QAIP, including results of ongoing internal assessments and external assessments conducted at least every five years.

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# VERSION CONTROL

Document Owner: Jonathan Idle, Head of Internal Audit and Counter Fraud.

Version	Reviewed	Reviewer	Approver
Original			
2	February 2015	Head of Internal Audit	Governance & Audit Committee
3	April 2016	Strategic Audit Manager	Governance & Audit Committee
4	March 2019	Head of Internal Audit	Governance & Audit Committee
5	July 2020	Head of Internal Audit	Governance & Audit Committee
6	July 2021	Head of Internal Audit	Governance & Audit Committee
7	April 2022	Head of Internal Audit	Governance & Audit Committee

1. The Key Performance indicators (KPI's) and Performance Monitoring for the Internal Audit service have been reviewed with the intention of updating to more modern metrics updates with an ongoing shift from quantitative to outcome and value measuring performance.
2. Thus, it has been the tradition within Internal Audit to concentrate upon input and output metrics such as:
  - Percentage of the Audit Plan delivered.
  - Planned v Actual days / % of audits completed within resource allocation.
  - Delivery of all agreed Audit Committee papers on time.
  - % of Draft audit reports issued within ten working days of completion of fieldwork.
  - % of Final Reports issued within five working days of receipt of responses to draft report.
3. These are valid to measure within the service internally as they are part of how Audit Managers monitor individual and team efficiency, however it is more relevant to report to the Governance and Audit Committee and stakeholders on whether there is value from the work of Internal Audit and whether the work helps the organisation strengthen controls and the management of risk and achieve its objectives and priorities.
4. To further shift the performance measurement of the Internal Audit service to being outcome based and accountable to the Governance and Audit Committee, the following measures in Table 1 will be reported to the Committee:

# 2023/24 Internal Audit Key Performance Indicators – Table 1

## KCC Key Performance Indicator

	Factor	Basis	Measured by
A	Strategic Alignment	For Internal Audit to be relevant, its coverage must be aligned to the Council's main risks	<ul style="list-style-type: none"> <li>• Either an Assurance Map on Internal Audit coverage or reporting to the Committee on annual coverage compared to the Corporate Risk Register</li> </ul>
B	Rolling Audit Plan	Having a Rolling Audit Plan reflects the need for coverage of key risks at the right time	<ul style="list-style-type: none"> <li>• Number of Relationship Management meetings held to discuss Rolling Audit Plan</li> <li>• Stakeholder feedback on the effectiveness of IA coverage</li> </ul>
C	Timely Insights	In addition to the timeliness of reports, insights should be provided in a timely manner to managers and stakeholders	<ul style="list-style-type: none"> <li>• Stakeholder feedback on effectiveness of collaboration</li> <li>• Stakeholder Feedback on Embedded Assurance insights</li> </ul>
D	Adding Value	The fundamental basis for the service to the Council that Internal Audit should be providing.	<ul style="list-style-type: none"> <li>• The proportion of audit coverage providing wider assurance via the use of data analytics</li> <li>• Recording how audit coverage has contributed to the Council saving money.</li> <li>• Documenting how and where IA has provided guidance for improving poor or effective controls.</li> <li>• Documenting how IA has provided embedded assurance advice from the initial stages of strategic initiatives</li> </ul>
E	Management Actions	To determine if there has been actual improvement from Internal Audit reviews	<ul style="list-style-type: none"> <li>• % of high priority / risk issues agreed</li> <li>• % of high priority / risk issues implemented.</li> <li>• % of all issues agreed</li> <li>• % of all issues implemented.</li> </ul>
F	Client Satisfaction	Determining whether value is added	<ul style="list-style-type: none"> <li>• Client satisfaction surveys at the end of each audit.</li> <li>• Annual Key stakeholder perception survey (some questions to be amended)</li> </ul>
G	Audit Efficiency	The responsibility to operate efficiently	<ul style="list-style-type: none"> <li>• Time from audit planning to draft report being issued.</li> <li>• Completion of all Grant Certifications for the Council/ respective Directorates within set timescales.</li> </ul>

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By: Peter Oakford - Deputy Leader and Cabinet Member for  
Finance, Corporate and Traded Services  
Zena Cooke – Corporate Director Finance

To: Governance and Audit Committee – 6 July 2023

Subject: Revised Accounting policies and provisional audit timetable

Classification: Unrestricted

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Summary: This report asks Members to note that there are no changes to accounting policies and to note the provisional external audit timetable.

## FOR INFORMATION

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### Accounting policies

1. The CIPFA Code of Practice requires authorities to follow International Accounting Standard 8 (IAS 8) - *Accounting Policies, Changes in Accounting Estimates and Errors*. Accounting policies are defined as "... the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements."
2. For 2022-23 there are no changes to the accounting policies to report.

### Draft accounts and provisional external audit timetable

3. The Accounts and Audit Regulations 2015 requires that draft accounts be available for public inspection for a single period of 30 working days and includes the first 10 working days of June.

The 18<sup>th</sup> May Committee was informed that the 2022-23 Statement of Accounts would not be published until the 1<sup>st</sup> July and available for public inspection period for a single period of 30 days and includes the first 10 working days of July.

We are required to publish a notice stating that the inspection period has not commenced, the reason why and to inform when it will be reasonably be practicable to do so. This was published on the 22<sup>nd</sup> May 2023.

- 3.2 Paragraphs 3.3 to 3.6 set out the background behind the delays in completion of the audit and sign off of the accounts, which are the contributing factors in delaying the publication of the draft 2022-23 Statement of Accounts.
- 3.3 The audit of the 2021-22 accounts was completed on the 31<sup>st</sup> March 2023 and this impacted on the commencement of the 2022-23 accounts.

- 3.4 Prior to the COVID-19 pandemic our draft accounts have been published as required on 31<sup>st</sup> May and have met the inspection period.

For financial years 2019/20, 2020/21 and 2021/22, the Accounts and Audit Regulations were amended to give extra time for local authorities and auditors. We were required to publish draft accounts by no later than the 1<sup>st</sup> August. Our draft accounts were published as follows:

- The 2019/20 accounts on 30 June 2020. With the inspection period commencing on the 1<sup>st</sup> July 2020,
- The 2020/21 accounts on 30 June 2021. With the inspection period commencing on the 1<sup>st</sup> July 2021, and
- The 2021/22 accounts on 1 August 2022. With the inspection period commencing on the 1<sup>st</sup> August 2022.

- 3.5 The audit and sign off of the accounts up until 2019/20 has been completed by 31<sup>st</sup> July.

Over the last three years we have seen an extended audit timetable and delays in the signing off of the accounts. Detailed below are the sign off dates for years 2019/20 and 2020/21:

- The 2019/20 accounts were signed off on 27th November 2020. This met the deadline as set out in the Accounts and Audit Regulations, amended for the pandemic.
- The 2020/21 accounts were signed off on 13th December 2021. This was after the deadline of 30th November 2021.

- 3.6 The Accounts and Audit Regulations for the 2021/22 accounts were amended and required the publication for final, audited accounts to be the 30<sup>th</sup> September 2022. The expectation, as advised by our auditors, was that the 2021/22 audit of the accounts would have completed by the end of November/beginning of December 2022. The accounts were eventually signed off on the 31<sup>st</sup> March 2023. The following issues led to the delay in sign off:

1. Infrastructure Assets

Waiting for the statutory instrument to be approved to confirm the disclosure requirements. Confirmation was made in January 2023.

2. Completion of the following items:

- Property, Plant and Equipment valuations, group audit procedures and PFI,
- Completion and approval from the external auditor's technical team (Hot Review),
- Auditor expert response on reasonableness of our valuation expert's approach to setting the remaining useful life assumptions for depreciation accounting estimates, and

- Additional sample testing in all areas.

All of the above meant that the audit continued through to the end March 2023, with the accounts being signed on the 31<sup>st</sup> March 2023.

This is a national issue that is being considered by Government, however the scale of the audit backlog is such that it is likely to be an issue for some time.

3.7 The provisional timetable for the 2022-23 Statement of Accounts and the audit thereof is as follows:

- a) Draft Statement of Accounts produced by 30 June 2023
- b) Audit anticipated to commence July 2023

#### 4. **Recommendation**

4.1 Members are asked to note that there are no changes recommended to the accounting policies and to note the provisional audit timetable.

**Cath Head**  
**Head of Finance Operations**  
**Ext: 416934**

**Emma Feakins**  
**Chief Accountant**  
**Ext: 416082**

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# Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the 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.

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# Key matters

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## 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 from a diverse portfolio of investments. Like all funds, economic uncertainty and high inflation continue to provide a wider contextual challenge to the fund.

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# Key matters

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## 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

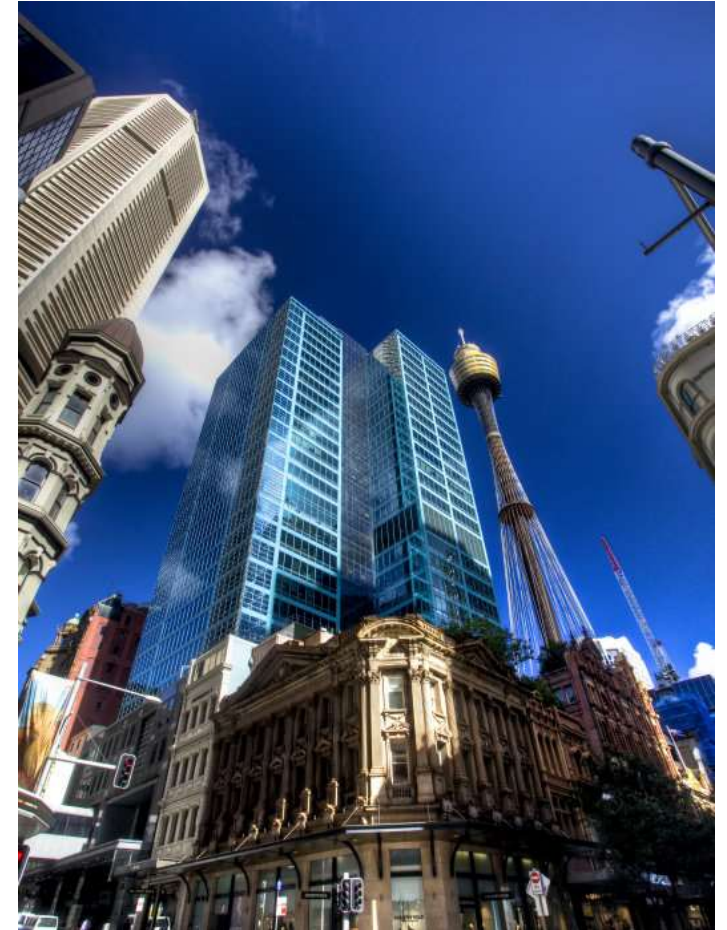
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed the Terms of Appointment 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.

## 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)	<p>Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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:</p> <ul style="list-style-type: none"> <li>▪ there is little incentive to manipulate revenue recognition</li> <li>▪ opportunities to manipulate revenue recognition are very limited</li> <li>▪ the culture and ethical frameworks of local authorities, including Kent Pension Fund, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for Kent Pension Fund.</p>	
Management over-ride of controls	<p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▪ evaluate the design effectiveness of management controls over journals</li> <li>▪ analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>▪ test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>▪ gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence</li> <li>▪ evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

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'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)	<p>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.</p> <p>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.</p> <p>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.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2023.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• 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</li> <li>• independently request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in asset valuation.</li> <li>• 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</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> <li>• where we have audited accounts for 31 December 2022 , consider year end cash roll forward procedures</li> <li>• 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.</li> </ul>

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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)	<p>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.</p> <p>Management have engaged the services of a valuer to estimate the current value as at December 2022.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• independently request year-end confirmations from investment managers and the custodian</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm the basis on which the valuations were carried out</li> <li>• 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.</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records.</li> <li>• Consider whether or not we need to engage an independent auditor's expert to support our valuation work.</li> </ul>

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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	<p>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.</p> <p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Perform testing over post year end transactions to assess completeness of expenditure recognition.</li> <li>• Test a sample of expenses to gain assurance in respect of the accuracy and occurrence of expenditure recorded during the financial year.</li> </ul>

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'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	<p><b>Determination</b></p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>- paying pensions and collecting contributions are core aspects of what Kent Pension Fund does</li> <li>- current pensioners and prospective pensioners will want assurance that pension payments are accurate</li> <li>- employers and prospective pensioners will want assurance that contributions are accurate.</li> </ul>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> <li>- establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements</li> <li>- assist in establishing the scope of our audit engagement and audit tests</li> <li>- determine sample sizes and</li> <li>- assist in evaluating the effect of known and likely misstatements in the financial statements</li> </ul>
2	<p><b>Other factors</b></p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>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.</p>

# Our approach to materiality

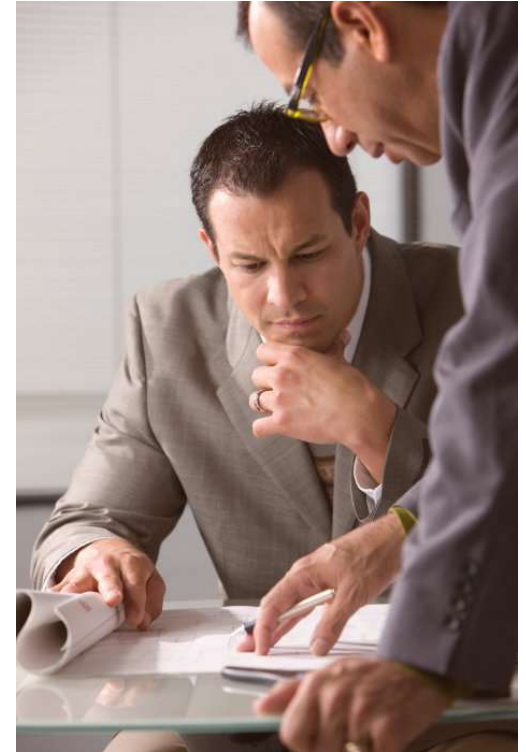
Matter	Description	Planned audit procedures
3	<p data-bbox="248 501 667 533"><b>Reassessment of materiality</b></p> <p data-bbox="248 549 1021 619">Our assessment of materiality is kept under review throughout the audit process.</p>	<p data-bbox="1048 501 2107 619">We reconsider planning materiality 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.</p>
	<p data-bbox="248 839 1021 911"><b>Other communications relating to materiality we will report to the Audit Committee</b></p> <p data-bbox="248 927 1021 1460">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.</p>	<p data-bbox="1048 839 2107 951">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.</p> <p data-bbox="1048 967 2107 1190">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.</p>

# 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	<ul style="list-style-type: none"> <li>- 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</li> </ul>
Materiality for specific transactions, balances or disclosures [Fund Account transactions, except for Investments]	£24m	<ul style="list-style-type: none"> <li>- Paying pensions and collecting contributions are core aspects of what Kent Pension Fund does</li> <li>- current pensioners and prospective pensioners will want assurance that pension payments are accurate</li> <li>- employers and prospective pensioners will want assurance that contributions are accurate.</li> </ul>

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# 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:

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IT system	Audit area	Planned level IT audit assessment
Oracle	Financial reporting	<ul style="list-style-type: none"> <li>• ITGC assessment (design effectiveness only) for the Pension Fund -hosted controls               <ul style="list-style-type: none"> <li>• Understanding IT general controls</li> <li>• IT environment</li> <li>• IT general controls segregation of duties analysis</li> <li>• Cyber Security workplan</li> </ul> </li> </ul>

# 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

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.

## 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.

## 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.



# 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

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## 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

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
<i>Ongoing increases to scale fee first identified in 2020/21</i>		
Property valuation	£2,188	£0
Investment valuation	£2,188	£2,301
Investment valuation – use of internal expert	£5,000	£5,260
Increased audit requirements of revised ISAs	£8,087	£9,100
<b>Total audit fees (excluding VAT)</b>	<b>£41,000</b>	<b>£45,511</b>

# 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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