Kent County Council Audit Plan

Year ending 31 March 2023

Kent County Council

August 2023

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

Key matters

Financial sustainability – the national context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

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.

Financial sustainability – local context

The financial position for Kent County Council has deteriorated over the past couple of years. You are reporting a 2022-23 provisional deficit of £44.4m. This deficit has been funded from useable revenue reserves which has fallen from £469m as at 31 March 2022 to £416m as at 31 March 2023. The deficit for 2022-23 is as a result of unsustainable growth in certain budget lines and non-delivery of savings. A recent paper by management predicts that the level of useable revenue reserves as at 31 March 2023 is now in the bottom quartile of all County Councils.

If the Council fails to deliver savings and take a grip of unplanned budget growth the Council will continue to record significant deficits. The Council is unable to absorb further years like they had in 2022-23 because useable revenue reserves will run out. The Council is therefore at a ‘tipping point’ and unless the Council recovers the financial situation, then your S151 will have no other option but to publish a section 114 notice. Our 2021-22 Auditor’s Annual Report highlighted this issue as a significant weakness in arrangements and we had a key recommendation as a result.

Key matters

The Council has a very short window to address the financial position – to stop unsustainable growth and deliver savings. Addressing the issue will require a coordinated and focused response from key executive officers, members and employees of the Council. It will require the Council to prioritise and make difficult policy and spending choices. The Council has published a balance budget for 2023-24 which requires the Council to make circa £55m of savings. This represents 4% of the total budget. Whilst this is a challenging savings requirement, it is still achievable. Given that in recent years the Council has not fully delivered savings plans, there is some risk around the delivery of the £55m.

It is worth noting however that the balanced budget for 2023-24 does not take into account the impact of the safety valve agreement. We understand management are currently updating their plans but the impact will either increase the savings requirement or the shortfall will be taken from the general fund.

Dedicated Schools Grant deficit and SEND services

As we have previously reported, Kent County Council currently has one of the largest Dedicated Schools Grant deficit in the country. The deficit has grown over the past number of years, primarily because of higher than funded cost within Special Education Needs and Disability services (SEND). The deficit as at March 2022 was £97.6m and is currently being held in an unusable reserve.

During the summer of 2022, the Council signed an agreement with the Department of Education for a dedicated schools grant 'safety valve' which covers the financial years from 2022-23 to 2027-28. The aim of this agreement is to bring the Dedicated Schools Grant (DSG) out of deficit by March 2028. To achieve this, the Department of Education has agreed to provide funding of circa £140m over the next 6 years. This funding is contingent on the Council complying with the conditions and requirements set out in the agreement. These requirements are challenging – and requires full scale transformation of SEND services. Therefore, there is a significant financial sustainability risk to the Council of failing to meet the requirements of the safety valve. Moreover, the £140m of funding from the Department of Education is not sufficient on its own to bring the forecast DSG deficit to nil by the end of March 2028. The Council itself will need to make one-off contributions from its general reserve as well. The amount of these top-ups is dependent on how well the Council can reduce expenditure but the total amount is likely to be material. For 2022-23, the one-off funding from the Local Authority was £17 million. The estimated Local Authority contribution to the safety valve is £84m over the 6 years.

NHS Transactions

In our audit of 2020-21 we identified an issue pertaining to a £4m transaction with an NHS CCG (now ICB). This was followed up in 2021-22 and reported on in our Audit Findings Report. During 2022-23 we were made aware of a potential disagreement regarding the respective funding obligations of the Council and the ICB relating to hospital discharge services. Whilst the amounts involved mean we have not identified this as a significant risk to the audit, given the sensitivities, we have nonetheless tailored in specific tests during our 2022-23 audits to determine that transactions with the NHS are complete, accurate and are regular in nature. We will report to you our findings in relation to these additional procedures in our 2022-23 Audit Findings Report.

Key matters

Governance

Your 2021-22 Annual Governance Statement (AGS) identified several key findings which are cause for concern. 3 of the key findings are summarised below:

- whilst not pervasive, there are occasions where the Council fails to comply with written governance arrangements, an example being the SEND transport contract;
- there is evidence of optimism bias in decision making – greater realism is required to ensure decisions are effective; and
- there are issues and complaints regarding the culture and behaviours exhibited during formal Council and Committee meetings;

Given the current financial distress of the Council, the need for the Council to have robust governance arrangements which everybody complies with is ever more pressing. Your AGS recognises that 'good governance' is more than a tick box exercise, but rather a culture where people can discharge their responsibilities effectively, openly and in good faith. The 2021-22 AGS confirms that the Council has begun to accept and own its governance issues and must now push on to implement change. Our Value for Money work will review the arrangements in this area, including progress from the prior year.

Key matters

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Corporate Director of Finance.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- 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 via our Governance and Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- As a result of an issue we identified pertaining to an NHS transaction in 2020-21 and 2021-22, we will carrying out specific tests during 2022-23 to identify and test NHS transactions that are included in the financial statements as well as NHS transactions occurring after the balance sheet date.

Introduction and headlines

Purpose

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

Respective responsibilities

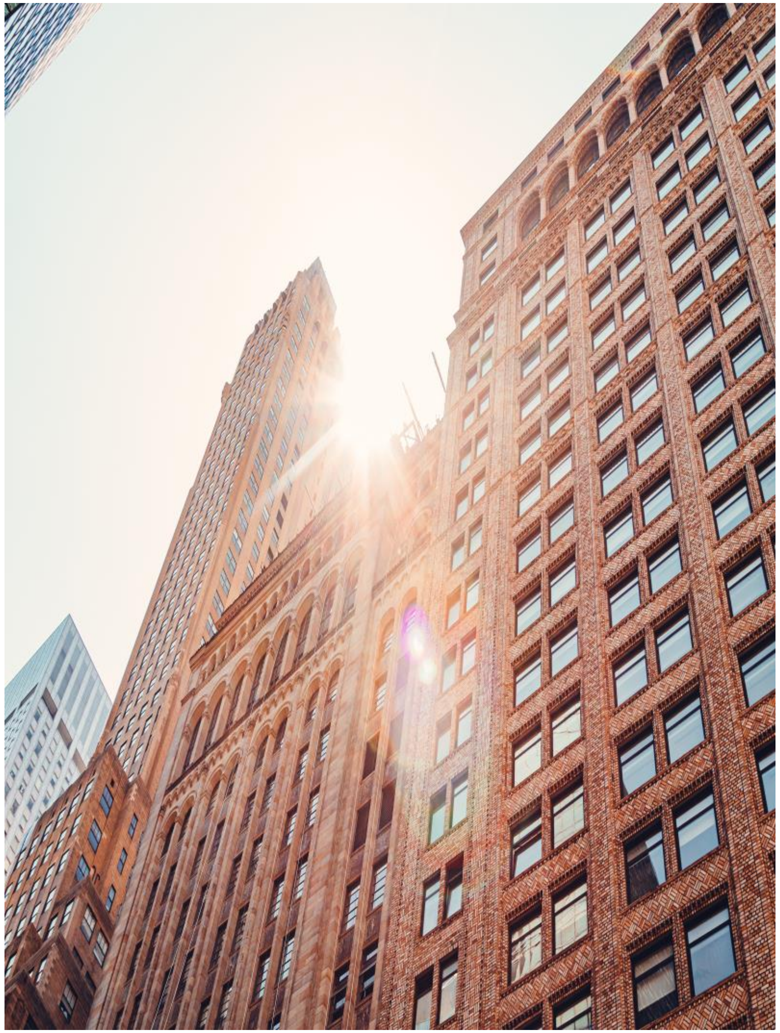
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent County Council. 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 Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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 Council 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 Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council'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 risk that the valuation of land and buildings as at 31 March 2023 is materially misstated.
- The risk that the valuation of the net pension fund liability in the accounts is materially misstated.
- The risk of management override of controls.

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.

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- Kent Holdco Ltd
- EDESCO Ltd
- Kent County Trading Ltd
- Cantium Business Solutions Ltd
- GEN2 Property Ltd
- Invicta Law Ltd
- Commercial Services Kent Ltd and its 4 subsidiaries
- Kent Top Temps Ltd
- Commercial Services Trading Ltd and its subsidiary (CES Holdings Ltd)

Introduction and headlines

Materiality

We have determined planning materiality to be £43.5m (PY £41.5m) for the group and £43m (PY £41m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. 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 £2.2m (PY £2.1m) for both the group and the Council.

Senior officers' remuneration is an area of interest to readers of financial statements. We have therefore set a lower level of materiality for this sensitive disclosure of £100,000 compared with the headline materiality of £43m.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified 7 risks of significant weakness. The first 5 risks are those which follow on from the key recommendations raised in our 2021-22 auditor's annual report. Risks 6 and 7 are new risks identified. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Risks linked to key recommendations raised in the prior year:

1. the risk that the Council's arrangements to control budgetary spend and deliver savings are not effective leading to the Council's financial positioning worsening and increasing the likelihood of your S151 issuing a S114 notice;
2. the risk to the Council's financial sustainability as a result of ineffective arrangements to manage SEND demand and meet the requirements of the Council's safety valve agreement with Central Government. Failure to meet the requirements could result in a loss of funding;
3. the risk of non-compliance with the Council's decision-making framework as well as the need to strengthen existing arrangements;
4. the risk that the Council's arrangements fail to improve performance of SEND services and does not meet Ofsted standards;
5. the risk that the Council's procurement arrangements are not effective or complied with;

New risks for 2022-23:

6. the risk that behaviours and the culture within the Council do not support effective governance and decision making; and
7. the risk that the arrangements in place to provide statutory services for Asylum Seekers including Unaccompanied Asylum Seeker Children (UASC) are not effective.

Introduction and headlines

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.

Audit logistics

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

Our proposed fee for the audit will be £245,311* (PY: £268,185**) for the Council, subject to the Council 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.

**The current year audit fee of £245,311 includes proposed fee variations of £104,186 which are subject to PSAA approval. See page 29 for a detailed breakdown of the proposed fee variations.*

***The prior year audit fee of £268,185 includes fee variations approved by PSAA. We have reported a detailed breakdown of this fee variation in our previous reports.*

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

'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)

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 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 cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council and Group	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings including investment properties as at the balance sheet date (Rolling revaluation)	Council and Group	The Authority revalues its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter. **Pinpointing the risk:** We plan to pinpoint the significant risk around the following • assets which are material; • assets where the valuation movement differs significantly to what we would expect based on indices; • assets where we are aware of a significant change in any of the key assumptions from the prior period; and • any other factors which in our auditor judgement increases the risk of material misstatement in a particular asset The pinpointing of the risk around specific items can only be performed at the final accounts stage once we have been able to perform the above risk assessment procedures.	We will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engage our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • Test revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assess the value of a sample of assets in relation to market rates for comparable properties. This will include to operational land and buildings as well as investment properties.

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council and Group	The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£564 million in the Council's balance sheet at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice on Local Authority Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk. Triennial revaluation: The LGPS is subject to a full membership revaluation every three years. The 2022-23 year is the first year of a new three year cycle. We therefore must obtain assurances that the non-financial information being sent to the actuary around membership data is complete and accurate.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Obtain assurances from the auditor of Kent Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. Our response to the triennial revaluation: • Perform testing and obtain assurances from the auditor of the pension fund that the data used by your actuary in the full membership valuation is complete and accurate.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Kent County Council	Yes		• We have detailed the risks for the audit of this entity on pages 10 to 13.	Full scope audit performed by Grant Thornton UK LLP
Commercial Services Kent Ltd	No		None	Audit of expenditure, carried out by the component auditor, which will then be reviewed by the group audit team. The nature, time and extent of our involvement in the work of component auditor will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the component auditor audit documentation and meeting with appropriate members of management.
Kent Holdco Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.

Table continued overleaf...

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Group audit scope and risk assessment cont.

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
EDSCO Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Kent County Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Cantium Business Solutions Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
GEN 2 Property Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Invicta Law Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Kent Top Temps Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.
Commercial Services Trading Ltd	No		None	Analytical review performed by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one or more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read the Narrative at the beginning of your Statement of Accounts and the Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- 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;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

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.

Our approach to materiality

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

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. **Council:** Materiality at the planning stage of our audit is £43m, which equates to 1.5% of your gross expenditure in the 2022-23 draft financial statements. **Group:** Materiality at the planning stage of our audit is £43.5m, which equates to 1.4% of your prior year group gross expenditure. As at the time of drafting the Audit Plan, the draft figures for 2022-23 group accounts were not available.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Our approach to materiality cont.

Matter	Description	Planned audit procedures
3	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a disclosure where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £100,000.
4	**Other communications relating to materiality we will report to the Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £2,150,000 (PY £2,100,000). 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 Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

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

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	43,500,000	43,000,000	This benchmark is determined as a percentage of the Council's Gross Cost of Services Expenditure in year, which has remained at approximately 1.5%.
Performance materiality	28,275,000	27,950,000	Performance Materiality is based on a percentage of the overall materiality. The threshold has been reduced from 75% in the prior year to 65%. The reduction is based on our auditor judgement in considering the requirements of ISA 320. The reduction is broadly in response to the fact we identified several misstatements in the prior year.
Materiality for specific transactions, balances or disclosures senior officer remuneration	100,000	100,000	Senior officer's remuneration disclosure is a sensitive disclosure. We have therefore set a lower level of materiality for this disclosure.
Trivial matters	2,100,000	2,100,000	This balance is set at 5% of overall materiality (rounded).

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 page 27.

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

IT system	Audit area	Planned level IT audit assessment
Oracle EBS	Financial reporting, expenditure, payables, payroll and journals	We will perform work to obtain assurance that the ITGCs are designed and implemented effectively. We do not plan to test the operating effectiveness of ITGCs
Fixed asset register (Excel)	PPE	We will perform work to obtain assurance that the ITGCs are designed and implemented effectively. We do not plan to test the operating effectiveness of ITGCs

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office -issued its latest Value for Money guidance -to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work for 2022/23, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in their use of resources that we needed to perform further procedures on.

Our 2021/22 Auditor's Annual Report identified 5 significant weaknesses in arrangements which led to us issuing 5 key recommendations. Each of these 5 significant weaknesses has been rolled forward as significant risks for the 2022/23 VfM audit. In addition, our risk assessment work for 2022/23 has identified a further 2 risks of significant weakness. These are detailed in the following pages.

We will also follow up on the recommendations we made in 2021/22 to assess progress in implementing them. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out on page 25.

Risks of significant weakness

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

Financial sustainability – arrangements to address unsustainable growth and delver savings

The Council made a significant deficit in 2022-23 and has a significant shortfall in its MTFP. The financial sustainability issue is multifactorial but two of the key drivers is unplanned growth in several budget lines and the non-delivery of savings. We concluded that there was a significant weakness in arrangements in this area in our prior year and issued a key recommendation. The risk around the financial position remains and therefore we continue to assess this as a risk of significant weakness for the 2022/23 Value for Money review of arrangements.

Financial sustainability – the SEND deficit and meeting the requirements of the Safety Valve

The SEND deficit is currently circa £100m. Whilst a statutory override enables the Council to remove this from the general fund, over the next 5 years, the Council has agreed with the Department of Education a 'safety value' to bring this deficit to nil. Failure to comply with the 'safety valve' agreement will result in a loss of funding and will ultimately impact the general fund. There is a significant risk to financial sustainability if the Council's arrangements do not deliver the ambitious requirements of the 'safety valve' agreement. In our 2021-22 auditor's annual report we concluded that there was a significant weakness in arrangements in this area and we continue to identify a risk of significant weakness for our 2022/23 Value for Money review of arrangements.

Risks of significant VFM weaknesses (Continued)

Governance – compliance with the decision-making framework

As part of our work in the 2021-22 auditor's annual report, we identified instances of non-compliance to the Council's internal policies and procedures around decision making. Equally, we identified that the Council needed to strengthen the arrangements around the decision-making framework. We reported to you a significant weakness in this area and issued a key recommendation. As a result, we have identified this as a risk of significant weakness for 2022-23 and will follow up on our recommendation made in the prior year.

Economy, Efficiency and Effectiveness – the performance of SEND services and meeting Ofsted requirements

In our 2021/22 auditor's annual report, we concluded that there was a significant weakness in arrangements around the performance of SEND services and issued a key recommendation. In November 2022, Ofsted and CQC reported that the Council had not made sufficient progress in implementing recommendations they had raised in 2019. This lack of progress coincides with the Council spending more on SEND and having one of the largest SEND deficits in the County. We have therefore continued to identify the arrangements to improve performance of SEND services as a risk of significant weakness.

Economy, Efficiency and Effectiveness – procurement arrangements

In our 2021/22 auditor's annual report, we concluded that there was a significant weakness in arrangements around the Council's procurement strategy and compliance with relevant policies and procedures. We therefore continue to identify the arrangements in this are to be at risk of significant weakness for our 2022/23 Value for Money review of arrangements. The recent High Court judgement increases this risk further.

Risks of significant VFM weaknesses (Continued)

Governance – behaviours and culture

A new risk of significant weakness identified for the 2022-23 Value for Money inspections relates to behaviours and culture. Issues were identified in the Council's Annual Governance Statement that linked to a thematic around behaviours and culture. We will therefore carry out a detailed assessment in this area. Aspects of this work have already been undertaken and discussed with key stakeholders.

Economy, Efficiency and Effectiveness – statutory services in relation to Asylum Seekers

In our 2021/22 auditor's annual report, we updated our understanding around the arrangements the Council has in place to discharge its statutory responsibilities in relation to asylum, in particular, Unaccompanied Asylum Seeker Children (UASC). We understand the Council spends circa £27 million a year in relation to asylum. On your corporate risk register, you have flagged issues pertaining the border, including asylum, as a high risk. We therefore have identified this as a new risk of significant weakness and will detailed work in this area for our 2022/23 Value for Money review of arrangements.

Risks of significant VFM weaknesses (Continued)

We may need to make recommendations following the completion of our work on significant weaknesses. The potential different types of recommendations we could make are as follows:

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Audit logistics and team

Governance and Audit committee
14 September

Year end audit
July – October 2023

Governance and Audit committee
October 2023

Governance and Audit committee
January 2024

Planning and risk assessment
March 2022

Audit Plan

Audit Findings Report

Audit opinion

Auditor's Annual Report

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.

Parris Williams, Senior Manager

Parris is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Audit and Governance Committee and finance team. He will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable. Parris will also oversee the delivery of our value for money work.

Audited body responsibilities

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

Our requirements

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

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- provide debtor and creditor transaction listings that are the balances outstanding at the year end
- produce timely group accounts with a full suite of supporting working papers including those setting out intra-group eliminations
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- the Council's experts provide clarity and detail over their work to enable auditors to challenge the accounting and valuation judgements used
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Kent County Council to begin with effect from 2018/19. The fee agreed in the contract was £120,062. 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 Council'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 £5,000. 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 County Council	£203,432	£268,185	£245,311
Total audit fees (excluding VAT)	**£203,432**	**£268,185**	**£245,311**

**The 2020/21 and 2021/22 audit fees include fee variations approved by PSAA. Details of these fee variations have been reported to you in our previous reports.*

Assumptions

In setting the above fees, we have assumed that the Council 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.

Audit fees – detailed analysis (Updated)

Scale fee published by PSAA 2022-23		**£141,125**
Ongoing increases to scale fee identified in 2019/20, 2020/21 and 2021/22		
Audit of Group Accounts (not included in the Scale Fee)	£5,260	
Journals testing	£3,000	
Additional audit procedures arising from a lower materiality	£5,260	
Enhanced audit procedures for Property, Plant and Equipment including use of auditor's expert	£7,522	
Increased audit requirements of revised ISAs 540	£6,000	
Additional work on Value for Money (VfM) under new NAO Code	£20,000	
Raising the bar/regulatory factors including the use of an EQCR and additional review	£13,500	
Infrastructure assets	£2,500	
Payroll, additional testing	£500	
Brought forward ongoing fee from the prior year		**£204,667**
New issues for 2022/23		
Additional work on Value for Money (VfM) as a result of 7 risks of significant weakness	£29,644	
New audit requirements in relation to ISA 315	£5,000	
Additional audit requirements in relation to work on the triennial revaluation of the LGPS	£6,000	
Total audit fees 2022/23 (excluding VAT)		**£245,311**

All variations to the scale fee will need to be approved by PSAA

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.

Independence and non-audit services cont.

Other services

Other services provided by Grant Thornton are detailed below:

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 Council'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.

None of the services provided are subject to contingent fees.

Service	Fees	Threats	Safeguards
Audit related			
Agreed upon Procedures relating to the Teachers' Pensions end of year certificate	£10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is low in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None	Nil	N/A	N/A

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	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a
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 (not typically council tax fraud)		•
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.

Grant Thornton

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