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Dear Paul,

Thank you for your letter dated 23 March 2023 in respect of the 2022/23 audits in Kent. You raised several points which I will answer in turn but thought it appropriate to start with the big picture. The local audit market has been struggling for a number of years. We have explored these items in detail in the attached publication which was issued last month [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk). The reality is that shortfalls in UK trained public sector auditors, weaknesses in local authority accounting and capacity, increased complexity of accounts under IFRS and a substantial increase in regulatory scrutiny by the Financial Reporting Council and the Quality Assurance Directorate of the ICAEW have all combined to get the position where only 12% of audits were signed by the 30 November 2022 deadline. Since the issuing of the statutory override which dealt with Infrastructure Assets, a further swathe of audits has been signed - . Grant Thornton is substantially ahead of other firms in terms of audit sign off with a current figure of 45%. Indeed, we were aware that two firms with over 50 audits between them had only signed one of them as at 31 December 2022.

### **Meeting the statutory deadline**

At the end 2022 there were over 600 audits outstanding in local government, covering a range of years, going back as far as 2017/18. The majority of the very old audits are due to significant technical issues or objection related activity which absorb a significant amount of audit time. Whilst audit resources (in the context where the audit requirements have probably doubled in five years) are an issue, the longstanding issues at councils such as Warrington, Nottingham, Sandwell, Croydon, Slough, Liverpool etc with the multiplicity of statutory action are a considerable drain on our audit resources. The input into one of these bodies is over 8 x the original budget and due to Government commissioners and other interventions we are required to prioritise this work. Our aim is however to clear the majority of the backlog by March 2024, whilst recognising that some audits remain difficult due to complex technical or legal issues and finance team capacity.

### **IT procedures**

The IT procedures you refer to relates to the implication of ISA 315 which applies to local authority audit for the first time in the 22/23 audits. ISA 315 is not just about IT but that is the one of the key elements. It's a complicated standard and we have had detailed training on the implications of the standard only in 2023, hence the timing of communications to bodies. In reality, the main impact of this change is on

audit teams and the level of documentation required, which whilst it may require some additional input from clients than in previous years this should not be onerous.

### **Changes to materiality**

Changes to materiality must always be on an audit by audit basis. The firm is considering a different approach to materiality on Pension Funds nationally based on regulator feedback but at a local level I would not anticipate significant general changes to materiality unless the prior year audit or the Council's financial position deemed that a change was necessary from a risk perspective.

### **Communication**

I am a great believer that communication can always be improved on both sides. I would urge any authority who has concerns about communication from their audit team to reach out straight away to their engagement lead. They are the individuals who have the clear authority to institute change as needed. As for staff continuity, we do actually try to ensure this but are often thwarted by staff turnover. There are many less challenging jobs in the finance sector than being a public sector auditor and particularly in London and the South-East, it's really clear that newly qualified accountants and audit managers have a significant numbers of options - mostly outside of audit.

### **Our plan for 2022/23 audits**

Our leadership team has reflected on our experiences in previous years and have recognised that we have tried to please everyone and spread our resource too thinly, particularly given the well documented symptoms of the state of the local audit system. As we come to the end of the PSAA contract, in London and the South East we have one county and five London boroughs to hand over to new audit suppliers, which will require these audits to be completed in a timely manner.

This year will see a change to our resourcing plans. We intend to commence all upper tier audits (including at least one year for those audits where will be working on years prior to 2022-23) in July 2023 with a hard close completion of 31 October 2023. We will then put all of our resource (circa 140 people) into delivering all 22/23 districts and Kent & Medway Fire and Rescue Service and at least one year of those who are behind by 31 December 2023. We will obviously need to agree detailed plans with individual bodies and if some of the upper tier audits are not achievable, based on an initial risk assessment, they will be replaced by those districts who have a good track record of delivering timely and good quality accounts. We acknowledge this is a fundamental change for Kent councils and will mean that the statutory deadline will not be met. Whilst this is our planned approach for 2022/23, this will be revisited as we commence the new PSAA Contract from 2023-24.

This is a very challenging time for all concerned but Grant Thornton is determined to play its part in reducing the backlog and help put the local audit system back on a sustainable footing.

Yours sincerely



Paul Dossett  
Audit Partner

