



The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2017

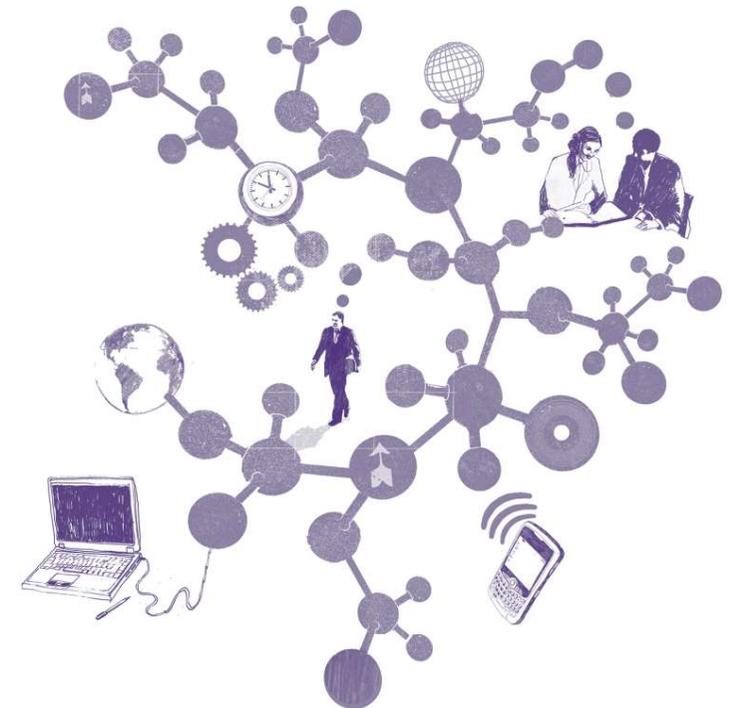
3 October 2017

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Maidstone Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee (as those charged with governance) in our Audit Findings Report on 18 September 2017.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 28 September 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 28 September 2017.

Certificate

We certified that we had completed the audit of the accounts of Maidstone Borough Council in accordance with the requirements of the Code on 28 September 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter.

Working with the Council

From 2017/18, the statutory deadlines for preparation and audit of the financial statements will be brought forward and the Council will be required to produce draft statements by 31 May, and secure an audit opinion by 31 July 2018.

Executive summary

We will work in partnership with the Council to complete a substantial amount of early audit testing prior to March 2018 which will help to drive efficiencies within the year end audit process.

Moving towards an earlier deadline, particularly within the more complex environment within which you now operate, will require an element of redesign of some of the closedown processes, arrangements and internal business processes.

We have worked with many clients to successfully implement faster close and will continue to work with the Council during the coming year to support the Council in achieving the earlier deadlines.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1.79 million, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for Cash of £500k, as was reported within our Audit Findings Report.

We set a lower threshold of £90,650, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance and Business Improvement are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a 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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Maidstone Borough Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we did not consider this to be a significant risk for Maidstone Borough Council.</p>	<p>Our audit work did not identify any issues in respect of revenue recognition.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet represents a significant estimate in the financial statements.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement; • Reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • Gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary; • We wrote to the auditor of the Kent Superannuation Fund to gain assurance over the data provided to the Actuary by the Fund on behalf of the Council to enable them to come up with a reasonable estimate for inclusion within the Council's Accounts. 	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p> <p>We used an auditor's expert to provide assurance on the Council's actuary's work. Our expert concluded that the assumptions used by the actuary to be reasonable in most cases although in some instances the assumptions fall outside of expected ranges. Looking at the impact of all assumptions holistically, we obtained sufficient assurance that the pension fund liability is not materially misstated.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 28 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit, Governance and Standards Committee on 18 September 2017.

During the course of our work we identified several minor presentation and disclosure amendments which the Council processed in the final version of the Accounts. We also identified one control issue around timely and accurate updating of the Council's Property, Plant and Equipment Register, as our testing identified a handful of small errors in this area. The Council acknowledge this and are planning to implement improvements in this area to ensure this is updated correctly over the coming months.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Position On its current trajectory, the Council is behind on its planned in-year General Fund position, largely due to the costs of providing temporary housing to those who have been made homeless. An action plan has been put in place to manage this overspend during the course of 2016-17 to return the position to balance by year end.</p> <p>The longer term picture also looks challenging due to the likely continuation of pressures on temporary accommodation, the cessation of the Revenue Support Grant, along with changes to other areas such as Business Rates Retention. The Council will need to manage its financial position and savings targets closely during the medium term period to avoid a negative impact on the long term financial stability of the Council.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> • reviewed the progress against the 2017-18 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date. 	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> • The Council delivered a £89k underspend against its General Fund Budget in 2016-17, despite having to deal with considerable overspends caused by the increased demand for temporary accommodation from people who became homeless during the course of the year. This area is an ongoing challenge in 2017-18, and the Council is continuing with its plan of purchasing properties to redevelop to provide its own source of accommodation to reduce the financial burden of the continued increase in homelessness cases in the Borough. • The Council has set a balanced budget for 2017-18, which includes £1,819k of savings and/or additional income generation schemes, which were identified in full by the Council before the financial year started. Of the £1,819k, £772k comes from income generation schemes, £684k efficiencies, £170k from transformation programmes, and the remainder from service reductions. This shows that the Council is continuing to take a balance approach to managing budget gaps, generating savings against additional sources of income. This will continue to be important as most of the obvious savings have now been utilised and different approaches will be needed to fill future budget gaps. • Over the life of the 2017 to 2022 Medium Term Financial Plan (MTFP), the Council has identified £3.4m of the £4.2m savings it estimates are required, which puts the Council in a strong position. However very little has been identified post-2020, which is largely due to the level of uncertainty over what Local Government funding is going to look like post-2020, when the new funding settlement is going to be implemented. To date the Council has taken a prudent approach to forecasting for this period, including expected additional costs and income in the MTFP to provide what it hopes will be a realistic assessment of the potential budget gap over this period. • During the course of updating the MTFP for the period covering 2018-2023, three scenarios (favourable, neutral and adverse) have been shared to highlight the range of potential savings/additional income which may be needed over this period. The worse case scenario could lead to the Council needing to identify a further £7,702k of savings/income over the next five year cycle, which would prove a real challenge given this equates to 22% of the total resources available to the Council. • At this present time, the Council is working to the 'neutral' position which estimates a budget gap of £2,111k over the medium term planning period. The Council has a good track record of delivering its plans over recent years and its arrangements for the medium term means it is well placed to deal with the challenges ahead, which are going to impact all councils over the next couple of years.

Appendix A: Reports issued and fees

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

Fees

	2016/17 Proposed fee £	2016/17 Actual fees £	2015/16 fees £
Statutory audit of Council	50,475	50,475	50,475
Housing Benefit Grant Certification	10,433	TBC	11,418
Total fees (excluding VAT)	60,908	TBC	61,893

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, would be shown under 'Fees for other services', but there are no items of this type to be considered in 2016-17.

Our final fee for this work will only be confirmed once we have completed all of the work required by this certification, which will be completed by the end of November 2017, which is the national deadline for the completion of this work.

Reports issued

Report	Date issued
Audit Plan	20 March 2017
Audit Findings Report	18 September 2017
Annual Audit Letter	3 October 2017

Fees for other services

Service	Fees £
Audit related services:	None
Non-audit services:	
• Investing in People Programme	16,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to Maidstone Borough Council	Fees (£)	Threat?	Safeguard
Audit related services	N/A	N/A		
Non-audit services	Investing in People Programme	16,000	Yes	This piece of work was performed by a separate department within Grant Thornton, who have had no involvement in the external audit, or any communication with members of the audit team during the course of the year. Therefore we are satisfied sufficient safeguards were put in place in respect of this piece of work.
	TOTAL	16,000		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.



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