

The Audit Findings for Maidstone Borough Council

Year ended 31 March 2021

Maidstone Borough Council
November 2021

Updated version November 2022 –
updates to the November 2021
version in **bold**



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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.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit Governance and Standards Committee.

**Name : Paul Dossett
For Grant Thornton UK LLP
Date : 14 November 2022**

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Maidstone Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement and the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work has been completed remotely in the period August – November 2022. Our findings are summarised at Section 2.

We considered the appropriate accounting treatment for construction costs relating to the Brunswick Street and Union Street housing developments. We agreed with management that the costs of assets being constructed for disposal should be reclassified from PPE assets under construction to inventory. This change in accounting treatment also gives rise to a prior period adjustment in the financial statements. However, we concluded that under statutory provisions these costs could continue to be financed through capital resources. Although this change involves a material change to classification our understanding is that the impact of valuing assets as inventory rather than assets under construction will not be material, and that the adjustments will have no impact on the General Fund balance. We have raised a number of technical issues for management to consider in making the agreed classification amendments.

We agreed a number of further changes relating to the accounting entries for the Brunswick Street and Union Street housing developments. The original accounting entries relating to the disposal of units to MHS homes took the year of disposal to be 2019/20. However, it was agreed that income should not have been recognised until the year in which the completed sites were transferred i.e. 2020/21 for Brunswick St. and 2021/22 for Union St. The Council had also accounted for capital receipts, and then used these receipts to fund capital expenditure, based on the original disposal dates; as a result amendments to capital financing transactions were also required. Both of these issues required prior period adjustments in addition to amendments in 2020/21. Details of the relevant amendments are included at Appendix C.

The final value of assets reclassified from PPE to inventory was £9,075,000.

Our work to date has not identified any other material adjustments to the financial statements and there is only one unadjusted misstatements.

We have agreed amendments to address the following issues;

- balances of £12,192,000 previously classified as PPE assets under construction should have been disclosed as Investment Property assets under construction. This issue also required a prior period adjustment.
-

1. Headlines

Financial statements (continued)

- the whole of the £7,817,000 balance for capital grants received in advance was shown as a current liability, but £3,880,000 should have been disclosed as a long term liability.
- a bank overdrawn balance of £3,380,000 was netted off with other cash balances at “Cash and cash equivalents” but should have been disclosed separately under current liabilities.

Unadjusted misstatements

Our work on investment properties identified one asset where the value had been understated by £211,000 due to an error in the valuation calculations by the Council’s external valuer. As the impact of the error was not material management decided not to adjust the accounts.

Calculation of the Council’s capital financing requirement

The financial statements include a disclosure note which calculates the authority’s closing capital financing requirement. In addition to the methodology used in the disclosure note it should also be possible to construct this figure directly from the Council’s balance sheet.

Performance of this “balance sheet check” using the 2020/21 accounts identified a material difference with the closing capital financing requirement per the disclosure note.

Significant additional work was required by management to resolve this issue. The difference related mainly to an arrangement with the operator of Maidstone Leisure Centre dating from 2009/10, where the relevant transactions had not been properly reflected in the annual calculation of the capital financing requirement. A number of other amendments to the calculation were also required. The aggregate impact was to increase the previously stated capital financing requirement at 31 March 2020 by £1,317,000 and to reduce the capital financing requirement at 31 March 2021 by £847,000. The accounts have been amended.

Prior period adjustments

A new disclosure note (Note 3) has been included in the financial statements to explain the prior period adjustments required to the accounts and to disclose the movement between the original and restated figures. A separate disclosure note on the prior period adjustments required in respect of the calculation of the capital financing requirement has been included at Note 32.

1. Headlines

Financial statements (continued)

Overall summary

- Our work is substantially complete. Our remaining work includes;
- completion of testing for PPE revaluations, where there have been some delays in obtaining information from the Council's external valuer;
- completion of creditors and debtors testing;
- completion of audit review and quality control procedures;
- review of a final set of the financial statements; and
- obtaining a management letter of representation.

Our work on the 2020/21 audit is now complete other than for;

- **completion of closing reporting processes.**

Recommendations for management as a result of our audit work are included at Appendix A. Our follow up of recommendations from the prior year's audit are detailed at Appendix B. Audit adjustments are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Council and the financial statements we have audited.

Subject to the completion of outstanding work we anticipate issuing an unmodified audit report.

We intend to issue an unmodified audit report.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

At this stage there are no significant weaknesses in the Council's arrangements which we need to bring to your attention.

We have now completed our VFM work.

Under the NAO framework we are required to report on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, considered under three specified criteria – financial sustainability, governance and improving economy, efficiency and effectiveness. As part of our work we are also required to consider if there are any significant weaknesses in the Council's arrangements.

We have reported the detailed findings from our VFM work in our Auditor's Annual Report. We did not identify any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. However, we have made a number of recommendations for improvement.

A summary of the work performed and our conclusions for each of the specified criteria is included at Section 3.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report.

Our VFM work is now complete. We intend to certify the closure of the 2020/21 audit when we give our opinion on the financial statements.

Significant Matters

In our report to the Audit, Governance and Standards Committee in March 2022 we reported a delay in completion to the audit due to both a lack of audit resources and some significant technical issues. The audit testing of detail was completed in April 2022. Our time since then has been spent resolving some significant and material technical issues with the Council that have required extensive extra resources and has led to the material adjustments to the accounts described earlier. We have been required to review several versions of the accounts and associated notes where relevant. We have carried out an early targeted technical review of the 2021/22 accounts which should mean that the 2021/22 audit runs more smoothly.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit, Governance and Standards Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements. Subject to the completion of outstanding work we anticipate issuing an unmodified audit report.

Our audit work is now complete. We intend to issue an unmodified audit report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements



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.

In our audit plan we reported a materiality level of £1,700,000. Based on the total expenditure reported in the draft financial statements we updated our materiality to £1,800,000.

Council Amount (£) Qualitative factors considered

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,800,000	This is approximately 2% of gross revenue expenditure.
Performance materiality	1,350,000	Calculated as 75% of headline materiality. This is a measure used in audit testing based upon our assessment of the likelihood of a material misstatement in the financial statements.
Trivial matters	45,000	This is 2.5% of materiality as agreed with the Audit, Governance and Standards Committee.
Materiality for disclosures relating to officer's remuneration and related parties	50,000	Additional inherent sensitivity around such disclosures.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in our March 2021 Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</p> <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.</p> <p>We therefore identified management override of control as an area of significant risk. The related areas of risk include management estimates, use of journals and any significant transactions outside the Council's normal course of business.</p>	<p>To address this risk we;</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; and • -gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. <p>Our audit work to date has not identified any other issues in respect of this risk. Our completed work has not identified any issues in respect of this risk.</p>
<p>Improper revenue recognition</p> <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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 mean that all forms of fraud are seen as unacceptable. <p>Our audit work has not identified any issues to change our strategy towards revenue recognition.</p>
<p>Fraud in expenditure recognition</p> <p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to budgets and set targets and we had regard to this when planning and performing our audit procedures.</p> <p>Management could defer recognition of expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.</p>	<p>To address this risk we;</p> <ul style="list-style-type: none"> • inspected transactions around the end of the financial year to assess whether they had been included in the correct accounting period; • inspected a sample of accruals made at year end for expenditure not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; and • investigated post yearend and manual journals as part of our journal testing procedures and considered if there was evidence of fraud in expenditure recognition. <p>Our audit work to review creditors and accruals is still in progress. Our work to date has not identified any issues in respect of this risk. Our completed work has not identified any issues in respect of this risk.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

The Council revalues its land and buildings on a rolling five year cycle, with major assets revalued annually. This valuation represents a significant estimate by management in the financial statements due to the values involved and the sensitivity of this estimate to changes in key assumptions.

We therefore identified the valuation of land and buildings as a significant risk.

To address this risk we;

- evaluated management's processes and assumptions for the calculation of the estimate, including the instructions issued to the Council's external valuer and the scope of their work;
- evaluated the competence, capabilities and objectivity of the external valuer, and challenged the information and assumptions used by the valuer;
- tested, on a sample basis, revaluations made during the year to ensure they had been input correctly into the Council's asset register; and
- evaluated how management concluded that the carrying value of assets not revalued was not materially misstated.

Our work in this area is still in progress. The outstanding work includes testing a sample of 2020/21 revaluation movements where we will require additional information from the Council's external valuer. By agreement with management we liaise with the valuer directly but to date there have been delays in obtaining responses to queries. Management have now contacted the valuer to request that responses are provided promptly.

Brunswick Street and Union Street housing developments: Accounting treatment of transactions

Brunswick Street (Tower Hill Court) and Union Street (Tylers Place) are housing development projects constructed on the sites of former Council car parks. The objective of the projects has been to provide;

- 28 units of affordable housing, transferred to MHS Homes on completion
- 26 properties for disposal by private sale
- 40 flats to be retained by the Council and leased to the Council's subsidiary company, Maidstone Property Holdings Ltd.

Work on the schemes commenced in 2018/19. Work on the 28 properties for transfer to MHS homes and the 26 properties for private sale was completed in 2020/21. Work on the remaining properties has been completed in 2021/22.

In the financial statements for earlier years and the draft financial statements for 2020/21 the Council has classified the costs associated with these schemes as PPE assets under construction. On completion in 2020/21 the properties have then transferred to assets held for sale prior to disposal.

We considered the appropriate accounting treatment for these transactions, having regard to accounting standards, the CIPFA Code of Practice on local authority accounting and the accompanying Code guidance notes. We concluded that, where assets are constructed with the intention of disposal rather than to provide ongoing service potential for the Council, then the costs associated with these assets are more appropriately disclosed as inventory rather than PPE assets under construction. This change in classification also involves changes to the accounting treatment on completion and disposal of the assets. The issue is relevant to those assets completed in 2020/21 and either transferred to MHS Homes or subject to disposal by private sale. As the amounts involved were material we agreed with management that the accounts would be amended to reflect these changes. The change in accounting treatment also gives rise to a prior period adjustment in the financial statements. Although this change involves a material change to classification, our understanding is that the impact of valuing assets as inventory rather than assets under construction will not be material, and that the adjustments will have no impact on the General Fund balance. We have raised a number of technical issues for management to consider in making the agreed classification amendments.

These assets had previously been financed through the use of capital resources. We considered the appropriate accounting treatment given the change in classification. We concluded that under statutory provisions the costs could continue to be financed through capital resources.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings

The Council re-values its land and buildings on a rolling five year cycle, with major assets revalued annually. This valuation represents a significant estimate by management in the financial statements due to the values involved and the sensitivity of this estimate to changes in key assumptions.

We therefore identified the valuation of land and buildings as a significant risk.

We noted that the original accounting entries relating to the disposal of units to MHS homes took the year of disposal to be 2019/20. This was the year in which the land used for the project was transferred from the Council to the company. However, income is normally recognised when the performance obligation specified in a contract is satisfied, and typically this involves control of the asset transferring. It was agreed that control of the asset had not transferred prior to the completion of construction work and the transfer of the sites to MHS, and therefore that income should not have been recognised until the year in which the completed sites were transferred i.e. 2020/21 for Brunswick St. and 2021/22 for Union St.

Management had also accounted for capital receipts, and then used these receipts to fund capital expenditure, based on the original disposal dates. It was agreed that the relevant capital financing transactions would also need to be amended to reflect the changes to the date when income was first recognised.

The final value of assets reclassified from PPE to inventory was £9,075,000.

The accounts have been amended. Details of the relevant amendments are included at Appendix C. A number of prior period adjustments have also been required. A new disclosure note (Note 3) has been included in the financial statements to explain these adjustments and analyse the movements between the original and restated figures.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its 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 values involved 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 for local government 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, and have identified valuation of the Council's pension fund net liability as a significant risk.

To address this risk we :

- updated 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 evaluated the design of the associated controls;
- evaluated the instructions issued by management to the actuary as management's expert, and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary;
- assessed the accuracy and completeness of the information provided by the Council to the actuary;
- tested the consistency of the pension fund disclosures in the financial statements with the actuary's report;
- confirmed 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; and
- obtained 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 audit work has not identified any issues in respect of this risk.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Valuations – Land and Buildings: £124,418,000 Investment property: £25,697,000 Assets Held for Sale: £5,655,000	<p>Other land and buildings comprise specialised assets such as the leisure centre and theatre which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. Land and buildings which are not specialised in nature are required to be valued at existing use in value (EUJ) at year end.</p> <p>The Council has engaged Harrisons Chartered Surveyors to complete the valuation of properties as at 31 March 2021.</p> <p>Management have also considered if there has been a material change in carrying value for properties not revalued during the year. Management have concluded that there has been no material change in value for these properties during 2020/21.</p> <p>Brunswick Street and Union Street housing developments: Accounting treatment of transactions</p> <p>For our conclusions on the accounting treatment of the transactions relating to the Brunswick Street and Union Street housing developments see section “Financial statements – Significant risks”.</p> <p>Investment property: Asset value understated</p> <p>Our work on investment properties identified one asset (Parkwood industrial estate plot 12 – Integra starter units) where the value had been understated by £211,000 due to an error in the valuation calculations by the Council’s external valuer. As the impact of the error was not material management decided not to adjust the accounts.</p>	<p>Work to complete our testing of PPE revaluations is still in progress. Our work to date has not identified any issues relating to the estimates or judgements made by management.</p> <p>Following a review of the accounting for transactions relating to the Brunswick St. and Union St. housing developments we agreed that assets totalling £9,075,000 should be reclassified from PPE to inventory. The accounts have been amended.</p> <p>We identified that the valuation for one investment property had been understated by £211,000. The accounts have not been amended.</p> <p>We agreed that balances of £12,192,000 classified as PPE assets under construction should have been disclosed as Investment Property assets under construction. The accounts have been amended.</p>	Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- [Light Purple] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
	<p>The issue is not material for our opinion. However, the amount involved is above the threshold where, if management decide not to adjust the accounts, we ask Those Charged With Governance to approve management's proposed treatment. Further details are included at Appendix C.</p> <p><i>Misclassification of Assets Under Construction</i></p> <p>Where assets under construction relate to investment properties then these should be disclosed under the balance for "Investment Property".</p> <p>All assets under construction had been shown under "PPE". However, it was agreed that balances for assets under construction totalling £12,192,000 should have been classified as "Investment Property".</p> <p>The accounts have been amended. A prior period adjustment was also required.</p> <p><i>Calculation of the Council's capital financing requirement</i></p> <p>The financial statements include a disclosure note which calculates the authority's closing capital financing requirement. In addition to the methodology used in the disclosure note it should also be possible to construct this figure directly from the Authority's balance sheet</p> <p>Under the CIPFA "Prudential Code for Capital Finance in Local Authorities" authorities should confirm each year that the closing capital financing requirement agrees to the aggregate of the relevant balances in the financial statements.</p>	<p>The Council's closing capital financing requirement had not been calculated correctly. The balance at 31.3.2021 had been understated by £847,000. The accounts have been amended.</p> <p>Our work did not identify any other issues relating to the estimates or judgements made by management</p>	<p>Light purple</p>

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
	<p>Performance of this “balance sheet check” using the 2020/21 accounts identified a material difference with the closing capital financing requirement per the disclosure note.</p> <p>Significant additional work was required by management to resolve this issue. The difference related mainly to an arrangement with the operator of Maidstone Leisure Centre dating from 2009/10, where the relevant transactions had not been properly reflected in the annual calculation of the capital financing requirement. Amendments were also required relating to take into account the Brunswick St./Union St accounting adjustments and to include the council’s minimum revenue provision in the calculation.</p> <p>The aggregate impact was to increase the previously stated capital financing requirement at 31 March 2020 by £1,317,000 and to reduce the capital financing requirement at 31 March 2021 by £847,000. The accounts have been amended.</p> <p><i>Valuation of heritage assets</i></p> <p>The financial statements include a balance of £10,393,000 for heritage assets. Of this balance £9,090,000 represents the value of a number of museum exhibits which were last formally valued on 1 April 2011. The CIPFA Code states that “where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current”. Given the last valuation was in 2011 it is unclear how far the valuation used in the 2020/21 financial statements remains current.</p> <p>Management have advised that they do not consider a large scale valuation exercise to be an effective use of staffing or financial resources. However, we understand an exercise to value the museum exhibits is currently in progress but that this may take several years to complete as it is being performed by museum staff.</p>		<p>Grey (Heritage assets)</p>

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- [Light Purple] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate

Summary of management’s approach

Audit Comments

Assessment

We note that the Term “sufficient regularity” is not defined by the Code, and that the code does not prescribe a minimum period for the revaluation of heritage assets. However, we recommend that management should perform sufficient work to satisfy themselves that the valuation for the museum exhibits included in the financial statements remains current and therefore complies with the requirements of the CIPFA Code. . This may also be relevant for insurance purposes.

**Grey
(Heritage
assets)**

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- [Light Purple] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																														
Net pension liability – £89,783,000	<p>At 31 March 2021 the Council had a net pension liability of £89,783,000 relating to the Local Government Pension Scheme as administered by Kent County Council.</p> <p>The Council uses an external actuary, Barnett Waddingham, to provide an actuarial valuation estimate of the Council's assets and liabilities deriving from these schemes.</p> <p>A full valuation is required every three years. The latest full actuarial valuation for the LGPS was completed in 2018/19. A roll forward approach is used in intervening periods. The valuations are based on key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability small changes in assumptions can result in significant valuation movements</p> <p>The Council recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p>	<p>We engage an auditor's actuary to assess the work of management's actuary and the reasonableness of the approach used. The auditor's actuary has provided us with indicative ranges for assumptions which we report below. The values used by management's actuary are consistent with the ranges specified by the auditor's expert.</p> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Within range?</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.0%</td> <td>1.95 - 2.05%</td> <td>✓</td> </tr> <tr> <td>Pension increase rate</td> <td>2.85%</td> <td>2.85 - 2.80%</td> <td>✓</td> </tr> <tr> <td>Salary growth</td> <td>3.80%</td> <td>CPI + 1%</td> <td>✓</td> </tr> <tr> <td>Life expectancy – Males currently aged 45</td> <td>22.9</td> <td>21.9 - 24.4</td> <td rowspan="2">✓</td> </tr> <tr> <td>aged 65</td> <td>21.6</td> <td>20.5 – 23.1</td> </tr> <tr> <td>Life expectancy – Females currently aged 45</td> <td>25.1</td> <td>24.8 - 26.4</td> <td rowspan="2">✓</td> </tr> <tr> <td>aged 65</td> <td>23.6</td> <td>23.3 – 25.0</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Within range?	Discount rate	2.0%	1.95 - 2.05%	✓	Pension increase rate	2.85%	2.85 - 2.80%	✓	Salary growth	3.80%	CPI + 1%	✓	Life expectancy – Males currently aged 45	22.9	21.9 - 24.4	✓	aged 65	21.6	20.5 – 23.1	Life expectancy – Females currently aged 45	25.1	24.8 - 26.4	✓	aged 65	23.6	23.3 – 25.0	Light purple
Assumption	Actuary Value	PwC range	Within range?																														
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aged 65	23.6	23.3 – 25.0																															

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with management. We have not been made aware of any significant incidents in the period. No other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council.
Confirmation requests from third parties	We seek external confirmations from relevant banks and financial institutions to support our review of the Council's yearend cash and investment balances. For one balance we were unable to access the relevant information using the confirmation procedures advised by the bank. For this balance we used alternative procedures to obtain the assurance required for our opinion purposes. We received positive confirmation for all other balances.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our work to date has not identified any inconsistencies. Subject to the completion of all outstanding work we plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Subject to confirmation in the group audit instructions for 2020/21 we anticipate the Council will not exceed the thresholds specified by NAO and that detailed work will not be required.</p> <p>We have now confirmed that the Council does not exceed the specified threshold for 2020/21. As such no detailed work will be required.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020/21 audit, as detailed in our audit report, as our VFM work is not yet complete.</p> <p>Our VFM work is now complete. We intend to certify the closure of the 2020/21 audit when we give our opinion on the financial statements.</p>



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020 the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have completed our VFM work.

Under the NAO framework we are required to report on whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, considered under three specified criteria – financial sustainability, governance and improving economy, efficiency and effectiveness. As part of our work we are also required to consider if there are any significant weaknesses in the Council’s arrangements.

We will report the detailed findings from our VFM work in our Auditor’s Annual Report. We did not identify any significant weaknesses in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. However, we have made a number of recommendations for improvement. A summary of the work performed and our conclusions for each of the specified criteria is included below.

Specified criteria	Procedures undertaken	Conclusion
Financial sustainability	<p>We considered how the Council:</p> <ul style="list-style-type: none"> identifies all the significant financial pressures it is facing and builds these into its plans plans to bridge its funding gaps and identify achievable savings plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans. 	<p>The Council is operating in an increasingly uncertain financial environment. For the second successive year the Comprehensive Spending Review was a single year spending review. Maidstone, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.</p> <p>Despite this uncertainty and the challenges posed by COVID-19 the Authority has maintained its financial position. The 2020/21 final outturn for the General Fund was a surplus of £1.2m.</p> <p>Overall the Council has a relative amount of capacity to manage variances over the short to medium term. We are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability.</p> <p>We have made some improvement recommendations including the production of a workforce plan.</p>

3. VFM - our procedures and conclusions

Specified criteria	Procedures undertaken	Conclusion
Governance	<p>We considered how the Council:</p> <ul style="list-style-type: none"> • monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud • approaches and carries out its annual budget setting process • ensures effectiveness processes and systems are in place to ensure budgetary control • ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency • monitors and ensures appropriate standards. 	<p>Overall we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.</p> <p>We have identified some improvement recommendations around risk management.</p>
Improving economy, efficiency and effectiveness	<p>We considered how the Council:</p> <ul style="list-style-type: none"> • uses financial and performance information to assess performance to identify areas for improvement • evaluates the services it provides to assess performance and identify areas for improvement • ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve • ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits 	<p>The Authority has demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources.</p> <p>Overall we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.</p> <p>We have made some improvement recommendations around performance management and procurement.</p>

4. Independence and ethics

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

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard 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.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk)

4. Independence and ethics

Audit and 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 following non-audit services were identified as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim		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 £22,000 in comparison to the total fee for the audit of £61866 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

Appendices

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p>The statutory accounting requirements per the CIPFA code include the use of a Capital Grants Unapplied Account. Currently the Council does not include a Capital Grants Unapplied Account in its financial statements.</p> <p>We confirmed that the transactions which would meet the criteria to be included in this account were not material in 2020/21.. We agreed that management would include additional narrative at Note 15 to clarify the position.</p>	<p>We recommend that the value of transactions meeting the criteria to be accounted for as capital grants unapplied is assessed as part of closedown procedures in future years, Where transactions meeting the criteria are identified then these should be processed through a capital grants unapplied account.</p> <p>Management response</p> <p>The finance team has assessed capital transactions to identify receipts which should be classified as capital grants unapplied and identified that the balance on this account for 2020/21 was £nil. We will continue to undertake this assessment in future years as recommended.</p>
	<p>Management presented its draft financial statements to the 28 July 2021 Audit Governance and Standards Committee. The financial statements were therefore published with the agenda papers for that meeting on 20 July 2021. Under the Accounts and Audit Regulations 2015 the public have the right to inspect or ask questions about the accounts. Th public inspection period for the 2020/21 accounts was effectively triggered by publication and advertised on the Council’s website as commencing on 21 July 2021..</p> <p>In practice further work was required to finalise the accounting entries in respect of property, plant and equipment. A revised version of accounts with material changes relating to these disclosures was published on 29 July 2021. The advertised period of inspection on the Council’s website was amended to run from 30 July 2021 . This updated period of inspection ran for the full period required by regulations.</p>	<p>It is recognised that, in circumstances where further work was required to finalise the accounts subsequent to initial publication, it was appropriate to publish a revised set of accounts. However, changes to the dates of the inspection period or to the content of the published accounts may cause confusion for the public. We recommend that the Council reviews its closedown timetable for 2021/22 to minimise the risk that the financial statements will need be re-published.</p> <p>Management response</p> <p>We will continue to strive to ensure that the financial statements are free from error at the point of publication. Where amendments are identified or further information comes to light subsequent to publication, we will update the accounts and extend the inspection period accordingly, as has been done this year.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p>The financial statements include a balance of £10,393,000 for heritage assets. Of this balance £9,090,000 represents the value of museum exhibits which were last formally valued on 1 April 2011. The CIPFA Code states that "where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current". Given that the last valuation was in 2011 it is unclear how far the valuation used in the 2020/21 financial statements remains current.</p>	<p>We recommend that management should perform sufficient work to satisfy themselves that the valuation for the museum exhibits included in the financial statements remains current. This may also be relevant for insurance purposes.</p> <p>Management response</p> <p>Based on the information we have we are satisfied that the current valuation is sufficient for the purposes of the statement. A full formal valuation would be a time consuming and expensive exercise and would not represent good value for money for Council Tax payers.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified one issue in the audit of the Council's 2019/20 financial statements which led to a recommendation in our 2019/20 Audit Findings report. The recommendation has now been implemented by management.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Declarations of interest</p> <p>During our testing of related party disclosures we requested the latest declarations for review. The Council sends these to members on an annual basis and they were sent on 9 April 2020. At the time of the audit work in July 17 forms had not been received from members.</p> <p>We recommend that the process for managing the distribution and collections of returns is reviewed and the importance of responding is reiterated with members.</p> <p>Management response We accept this recommendation and will be reviewing our processes to ensure that declarations of interest are collected promptly in future.</p>	<p>The Council has again sought declarations from all members and senior officers as part of yearend procedures for 2020/21. We noted that there were follow-up procedures for declarations not returned. As at 31 August 2021 declarations had been received from all members and senior officers other than from one former councillor.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Inventory		9,075	
PPE		(9,075)	
The accounting changes relating to the Brunswick St./Union St. projects mean that assets previously classified as PPE have been reclassified as inventory.			
There are also a number of associated amendments to the CIES, although these do not have an impact on total net expenditure, and to the MIRS.			
Assets Held for Sale		(5655)	
PPE		5655	
The accounting changes relating to the Brunswick St./Union St. projects mean that there are no Assets Held for Sale at yearend			
Revaluation Reserve	(720)	(720)	(720)
Capital Adjustment account	-	580	-
Inventory	140	140	140
The accounting changes relating to the Brunswick St./Union St. projects have involved a number of adjustments to reserves which also have an impact on the CIES.			

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Capital grant receipts in advance Capital Adjustment account		(1,172) 1,172	
Capital receipts relating to the Union St. project (£433k cash received in 2019/20 + £739k cash received in 2020/21) were originally accounted for as income in those years. However, the income should not have been recognised until 2021/22. As a result the balance of capital grant receipts in advance at 31.3.21 was understated.	739		739
Capital receipts relating to the Brunswick St. project had been recognised in 2019/20 but should not have been recognised until 2020/21. A prior year adjustment was required in respect of 2019/20. As the receipts have been wholly used to fund expenditure in 2020/21 this change between years has no impact on the balance sheet at 31.3.21.	(1,588)		(1,588)

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
PPE Investment Property		(12,192) 12,192	
Balances disclosed as PPE assets under construction should have been disclosed as Investment Property assets under construction			
Current liabilities –Capital grants received in advance		3,880	
Long term liabilities – Capital grants received in advance		(3,880)	
The whole of the balance for capital grants received in advance was shown as a current liability, but should have been analysed out to identify those balances which were long term liabilities.			
Cash and cash equivalents		3,380	
Bank overdraft		(3,380)	
A bank overdrawn balance had been netted off against other cash balances in current assets, but should have been disclosed separately under current liabilities.			

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
Short term debtors		(238)	
Short term creditors		238	
Accrual error leading to matching overstatement of debtors and creditors.			
Usable reserves		(58)	
Unusable reserves		58	
Collection Fund accounting adjustment leading to movement between reserves			
Overall impact	(1429)	0	(1429)

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
The valuation for one investment property (Parkwood - Integra) was understated by £211,000 as there was an error in the calculations by the Council's external valuer.				
.		211		Management consider the issue is not material.
Dr Investment property Cr Revaluation Reserve		(211)		
Overall impact	(211)	0	(211)	

Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure issue	Adjusted?
Balance sheet In the draft accounts the balance of £6,644,000 for Capital Grants Receipts in Advance was shown as a short term liability. It was agreed that this balance should be split to identify both short-term (£2,706,000) and long-term (£3,938,000) liabilities.	✓
As a result of other changes the total for Capital grants receipts in advance in has increased to £7,817,000 with £3,937,000 disclosed as a current liability and £3,880,000 as a long term liability (Note 16).	
Balance sheet A bank overdrawn balance of £3,380,000 was netted off with other cash balances at “Cash and cash equivalents” but should have been disclosed separately under current liabilities.	✓
Note 1 Additional disclosure table added to identify the Fees, Charges & Other Service Income accounted for under IFRS 15.	✓
Note 3 New disclosure note added to explain the prior period adjustments required to the accounts and to disclose the movement between the original and restated figures.	✓
Note 4 Additional disclosure included to identify the impact of a 10% change (£2.6m) in the value of the Council’s investment property portfolio. Impact of a 10% change in the value of PPE amended from £7.6m to £8.6m.	✓
Note 8 Note expanded to quantify the measure of materiality used by the Council when preparing the financial statements.	✓

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Adjusted?
Note 14 Fees for external audit services increased by £23,000 to reflect the fee notified in our 2020/21 Audit Plan.	✓
Note 17 Amendments to the capital commitments disclosure; commitment for Springfield Mill increased by £1,144,000 and for Kent Medical Campus reduced by £388,000.	✓
Note 26 In the draft accounts the total per the disclosure note for provisions did not agree to the balance sheet. Amendment agreed to the disclosure note increasing the total by £168,000.	✓
Various minor changes to amounts and narrative at other disclosure notes	✓

D. Fees

We set out below our fees charged for the audit and the provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	£61,866	TBC
Total audit fees (excluding VAT)	£61,866	TBC

The proposed fee for the audit reconciles to Note 14 in the financial statements as follows;

Note 14: Total of £76,000 represents the 2020/21 audit fee of £61,866 as communicated in our audit plan and additional fees of £14,500 for the 2019/20 audit which were not previously accrued.

Non-audit fees for other services	Proposed fee	Final fee
Housing benefit subsidy claim	£22,000	£25,000
Total non-audit fees (excluding VAT)	£22,000	£25,000

E. Audit opinion

Our audit opinion is included below.

Subject to the completion of outstanding work we anticipate we will provide the Council with an unmodified audit report.

We intend to issue an unmodified report.

Independent auditor's report to the members of Maidstone Borough Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Maidstone Borough Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our

responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance and Business Improvement's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Finance and Business Improvement's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

from when the financial statements are authorised for issue.

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Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months.

In auditing the financial statements, we have concluded that the Director of Finance and Business Improvement's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance and Business Improvement with respect to going concern are described in the 'Responsibilities of the Authority, Director of Finance and Business Improvement and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance and Business Improvement is responsible for the other information. The other information comprises the Annual Governance Statement and the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

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- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Business Improvement and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities for the Statement of Accounts the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Business Improvement. The Director of Finance and Business Improvement is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Business Improvement determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Business Improvement is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance and Standards Committee are Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United

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Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012

- We enquired of senior officers and the Audit, Governance and Standards Committee concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers and the Audit, Governance and Standards Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, fraudulent revenue recognition and fraudulent expenditure recognition.

- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Director of Finance and Business Improvement has in place to prevent and detect fraud;
- journal entry testing, with a focus on unusual journals made during the year and the accounts production stage for appropriateness and corroboration
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and

defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation

- guidance issued by CIPFA/LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that

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may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Maidstone Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report'
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Paul Dossett

Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:



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