



The Annual Audit Letter for Maidstone Borough Council

Year ended 31 March 2016

28 October 2016

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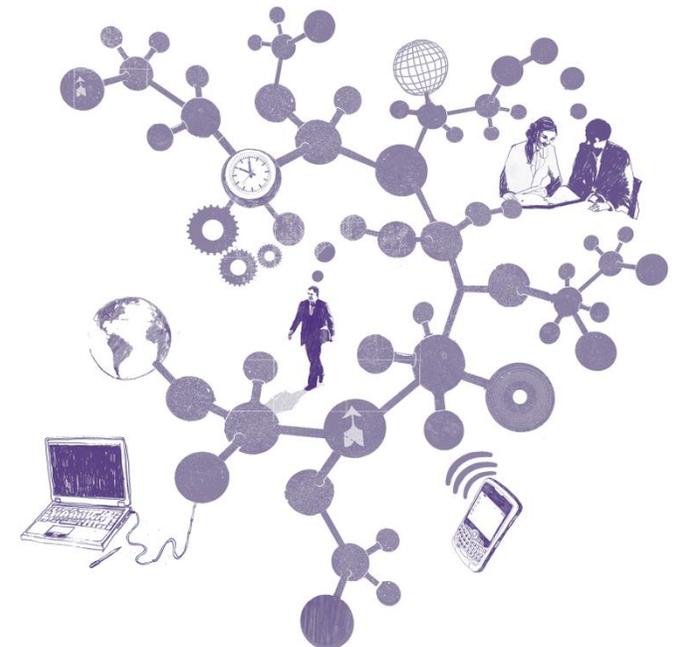
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Maidstone Borough Council (the Council) for the year ended 31 March 2016.

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

We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 19 September 2016

Our responsibilities

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

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

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 22 September 2016.

Value for money conclusion

We concluded that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 22 September 2016

Certificate

We certified the completion of the audit of the accounts of Maidstone Borough Council in accordance with the requirements of the Code on 22 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter.

Working with the Council/Authority

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

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

We determined materiality for our audit of the Council's accounts to be £1,794,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of materiality (£500k) for one specific area, cash, due to its sensitive nature.

We set a lower threshold of £89,700, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

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

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

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

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

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Employee remuneration accruals understated There is a risk that the Council's employee remuneration expenses included within the Accounts could be understated due to costs being omitted from the Accounts via incorrect processing during the year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified and performed a walkthrough of the controls on the payroll system; • Reconciled employee remuneration expenses per the payroll system to the general ledger; • Performed substantive testing of employee expenses; • Performed trend analysis of movements in total employee costs and follow up testing on unexpected movements. <p>No significant issues were identified from the audit work performed on this area.</p>
<p>Creditors understated or not recorded in the correct period There is a risk that the Council's expenditure and/or creditors balance could be understated by expenditure being either omitted completely from the accounts or included within the incorrect year.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified and performed a walkthrough of the controls on the operating expenses system; • Performed substantive testing of expenditure covering the whole of 2015-16; • We also tested creditor payments, including accruals, for completeness, classification and occurrence; • We reviewed the control account reconciliations; • Performed cut-off testing; • Reviewed the allocation and apportionment of central expenses. <p>No significant issues were identified from the audit work performed on this area.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represents a significant estimate in the accounts and comprises 80% of its total liabilities. The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>We undertook the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and were sufficient to mitigate the risk of material misstatement; • We reviewed the competence, expertise and objectivity of the actuary who carried out the pension fund valuation. We gained an understanding of the basis on which the valuation is carried out; • Completed procedures to confirm the reasonableness of the actuarial assumptions made; • Reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. • We have also tested the data provided to the actuary. <p>No significant issues were identified from the audit work performed on this area</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 22 September 2016, in advance of the 30 September 2016 national deadline.

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

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit, Governance and Standards Committee on 19 September 2016. We identified a number of minor disclosure issues which the Council agreed to amend in the final version of the Accounts, but there were no formal recommendations raised in respect of any of these issues.

Annual Governance Statement and Narrative Report

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

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

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

No items have been identified which have required us to use these statutory duties during the course of 2015-16.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

As part of our Audit Findings Report agreed with the Council in September 2016, we agreed the outcome of our work and confirmed that no recommendations had been raised from the work performed.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Financial Position Whilst you are on course to meet your financial outturn for 2015-16, the longer term picture looks more challenging due to the Council's Revenue Support Grant Funding ending sooner than originally planned. As a result the Council needs to identify a considerable level of savings over the next five years as part of its Medium Term Financial Plan to reduce the level of reserves needed to achieve financial balance.</p>	<p>We performed the following work in this area:</p> <ul style="list-style-type: none"> • reviewed relevant Council and other committee papers; • reviewed the 2015-16 financial outturn against plan, and investigated any significant areas of over/underperformance and the reasons behind these. • reviewed the progress against the 2016-17 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years, including discussions with Management on progress to date 	<p>The key points from our work in this area are the following:</p> <ul style="list-style-type: none"> • The Council delivered a £91k underspend against its General Fund Budget in 2015-16, despite having to set aside a balance of £1,770k to cover the deficit on the Collection Fund. The latter arose due to the level of appeals received during the year which had to be mitigated in a provision. • The Council set a balanced budget for 2016-17, which required identifying a total of £2,178k of savings from a range of areas across the Council. Of this total, £679k comes from additional income generation, and a further £559k will be realised via service reconfiguration, which shows a combined plan of both increasing income and reducing costs to deliver these savings. There remains a degree of risk associated with the £2,178k, but this has been clearly highlighted to members as part of the decision making process of setting the budget, and is being mitigated by the regular financial monitoring which takes place during the course of the financial year. • The Council has set an updated Medium Term Financial Plan, covering the period from 2017-18 to 2021-22. Members were presented with three scenarios with slightly different planning assumptions which produced a range of potential savings requirement over the medium term of £3,355k to £5,108k. The updated MTFP assumes £4,178k of savings over this five-year period, which will be a considerable challenge for the Council, despite its track record in recent years. • From our review we consider that the agreed MTFP is based on reasonable assumptions around the likely cost pressures and additional income sources to be incurred/identified during this period. The Council has begun work on the challenge of identifying the required savings, discussing with Members the potential areas, options and the associated savings which may be possible over the longer term to help fill the gap. Officers acknowledge this is work in progress and more is needed to finalise the options, quantify the saving opportunity and risk assess the likelihood of delivery. • Linked to both its short and long term plans, the Council is continuing to advance its Commercialisation agenda. The Council has set a target of delivering £1m of additional income over the Medium Term, of which it reports £460k has been delivered to date. The Council has set clear overarching principles to govern this area, which are being consistently applied by Members during their decision making processes to ensure these projects deliver the best possible outcomes for the Council and the wider economy. <p>From our work it is clear that the Council has established appropriate governance arrangements to enable it to manage the financial challenge it faces.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness..

Sharing our insight – we provided regular Audit, Governance and Standards Committee updates covering best practice. Areas we covered included our local government health checks and governance review, 'Reforging Local Government', along with our review of Audit Committee effectiveness, 'Knowing the Ropes', along with a range of other Reports. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Supporting development – we provided a workshop to members of the Audit, Governance and Standards Committee on the Value for Money Conclusion, including details of our approach and gave members the chance to identify the potential risks they thought might impact our Conclusion.

Support outside of the audit – our advisory team supported you with the delivery of a Risk and Opportunity Development Workshop, which allowed members and management to undertake a review of the Council's Risk Register and help shape the future of this Register going forward.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	50,475	50,475	67,300
Housing Benefit Grant Certification	13,910	TBC	13,910
Total fees (excluding VAT)	64,385	TBC	81,210

Fees for other services

Service	Fees £
Risk and Opportunity Development Workshop	5,462

Any potential fee variations for the work on the Housing Benefit Grant Certification are subject to approval by Public Sector Audit Appointments Ltd, and we will report this back to the Audit, Governance and Standards Committee once any additional fees have been agreed.

Reports issued

Report	Date issued
Audit Plan	21 March 2016
Audit Findings Report	19 September 2016
Annual Audit Letter	28 October 2016



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