



Annual Audit Letter

Year ending 31 March 2018

Maidstone Borough Council

29 August 2018



Contents



Your key Grant Thornton team members are:

Darren Wells

Engagement Lead

T: 01293 554 120

E: darren.j.wells@uk.gt.com

Matt Dean

Engagement Manager

T: 020 7728 3181

E: matthew.dean@uk.gt.com

Onyi Aguma

In-Charge Accountant

T: 020 7728 2728

E: onyi.o.aguma@uk.gt.com

Section

1. Executive Summary
2. Audit of the Accounts
3. Value for Money conclusion

Page

- 3
5
9

Appendices

- A Reports issued and fees

Executive Summary

Purpose

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 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and 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 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 30 July 2018.

Our work

Respective responsibilities

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

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

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

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,813,000, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	As the Council was below the £500m threshold to require work on the WGA Return, no detailed work was performed in this area.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.

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 2018. We will report the results of this work to the Audit, Governance and Standards Committee in our Annual Certification Letter.

Certificate

We certify that we have completed the audit of the accounts of Maidstone Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and early July, delivering the accounts in two and a half weeks, which was two weeks less than last year. We also cleared all of our outstanding queries in a timely manner as well.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports with Management and the Audit, Governance and Standards Committee.
- Providing training – we provided your teams with training and support on the accounts throughout the course of the year.
- Thought leadership – we provided access to our Vibrant Economy Index, allowing Officers and Members to understand how the Index may be able to help the Authority shape its future decisions.

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
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council's financial statements, 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 the audit of the Council's accounts to be £1,813,000, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for cash, which we set at £500,000.

Finally, we set a lower threshold of £90,700, 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 sufficient 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 accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

Our audit approach is 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

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could 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 • The culture and ethical frameworks of local authorities, including Maidstone Borough Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we did not consider this to be a significant risk for Maidstone Borough Council.</p> <p>However as Revenue is a material balance for the Council, we performed the following:</p> <ul style="list-style-type: none"> • reviewed and tested the Council's revenue recognition policies • performed testing on material revenue streams 	<p>Our audit work did not identify any issues in respect of improper revenue recognition.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness; • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the following:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work did not identify any issues in respect of the Property, Plant and Equipment Valuations included within the Accounts at year end.</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 financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed the following:</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 have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have also gained an understanding of the basis on which the valuation is carried out; • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made; • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability in the Accounts.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in advance of the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, 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 to the Council's Audit, Governance and Standards Committee on 30 July 2018.

We identified a few minor presentation and disclosure amendments, all of which were processed by the Council within the final set of Accounts.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Maidstone Borough Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risk we identified and the work we performed is set out overleaf.

Overall Value for Money 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 2018.

Value for Money conclusion

Key Value for Money Risk

Significant risk	Work to address	Findings and conclusions
<p>Financial Position</p> <p>Whilst the Council has been able to set a balanced budget over the short term, currently there is a requirement for a considerable level of savings of the life of the current Medium Term Financial Plan (MTFP). This is largely to do with the uncertainty over the next Local Government Finance Settlement, which will take effect from 2020, but the Council should be looking to take steps to mitigate any negative impact from the Settlement where possible.</p>	<p>We performed the following work in respect of this area:</p> <ul style="list-style-type: none"> - reviewed the assumptions behind the latest MTFP, covering the period up to March 2023; - considered the 2017-18 budget outturn, and any implications this may have for the MTFP, along with the latest outturn against the 2018-19 budget - reviewed the savings proposals which have been identified to date in respect of the savings requirements, along with the plans that the Council has to identify the additional savings currently required for the life of the MTFP 	<p>The key points from our work in this area were the following:</p> <ul style="list-style-type: none"> • The Council delivered a £185k underspend against its General Fund Budget in 2017-18, with no significant under or overspends during the course of the year. This is a positive indicator of strong budgetary control and management and effective action to manage the pressure areas in 2016-17 (for example, temporary housing). The Council is continuing to progress the aims of its Property Company to help provide resilience in this area, and the first schemes are scheduled to break ground in 2018-19. • The Council also delivered a sizeable capital programme during the course of the year as well, spending £9.8m of reserves which had been set aside for these purposes, including £4m of New Homes Bonus which was received by the Council during the course of the year • The Council has set a balanced budget for 2018-19, which includes £1,461k of savings or additional income generation schemes. These were identified in full before the financial year started. A significant proportion of this balance comes from income generation schemes and transformation programmes, which shows that the Council is continuing to balance generating savings against additional sources of income. This will continue to be important as most of the obvious savings have now been utilised and different approaches will be needed to fill future budget gaps. • Over the life of the 2018 to 2023 Medium Term Financial Plan (MTFP), the Council has identified £5,047k of the £6,591k savings required, which puts it currently, in a strong position. The Council has started to identify savings post-2020, over which there remains a considerable level of uncertainty given the new Local Government Funding Settlement due in December 2019. The Council continues to take a prudent approach to forecasting for this period, including expected additional costs and income in the MTFP to provide what it hopes will be a realistic assessment of the potential budget gap over this period. • During the course of updating the MTFP for the period covering 2018-2023, the Council has continued to provide Members with three scenarios to highlight the range of potential savings which may be needed over this period. The worse case scenario could lead to the Council needing to identify a further £7,702k of savings over the next five year cycle, which would prove a real challenge given this equates to 22% of the total resources available to the Council. However as mentioned previously, there is limited certainty over how likely this is to occur, and the Council needs to monitor this area closely to ensure it remains up to speed with any announcements around future funding. <p>However the Council has a good track record of delivering its plans over recent years which means it is well placed to deal with the challenges ahead, which are going to impact all Councils over the next couple of years.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	19 March 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	29 August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	50,475	50,475	50,475
Housing Benefit Grant Certification	11,418	TBC	10,433
Total fees	61,893	TBC	60,908

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). We will be unable to confirm our final fee for our Housing Benefit Work until we have completed the work ahead of the November 2018 deadline.

Fees for non-audit services

Service	Fees £
Audit related services:	
None	n/a
Non-audit services:	
Vibrant Economy Index Presentations (two presentations were provided by Grant Thornton to Members and Management for no cost)	nil

Non-audit services

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



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.